ECONOMIC DEVELOPMENT – INDIA AND ANDHRA PRADESH

B.A (Economics)

SECOND YEAR, SEMESTER–IV

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson- writers of the Centre who have helped in these endeavours.

Prof. P. Raja Sekhar
Vice-Chancellor
Acharya Nagarjuna University

B.A – ECONOMICS
YEAR – II, SEMESTER – IV
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SYLLABUS

Module – 1 Basic Features
Basic characteristics of Indian Economy as a developing economy – Economic development since independence - Objectives and achievements of planning – Planning Commission/NITIAyog and their approaches to economic development - India's Rank in Global Human Development Index .

Module 2 National Income and Demography
Trends in National income - Demographic trends - Poverty and Inequalities – Occupational Structure and Unemployment - Various Schemes of employment generation and eradication of poverty – Issues in Rural Development and Urban Development –Intra-state and Inter-state Labour Migration and unorganized sector Problems of Migrant Labour

Module – 3 Agricultural and Industrial Developments
Indian Agriculture – Agricultural Strategy and Agricultural Policy – Agrarian Crisis and land reforms – Agricultural credit – Minimum Support Prices -Malnutrition and Food Security - Indian Industry - Recent Industrial Policy – Make-in India – Start-up and Stand-up programmes – SEZs and Industrial Corridors - Economic Reforms and their impact - Economic initiatives by government of India during COVID - Atmanirbhar Bharat package.

Module –4Indian Public Finance
Indian Tax System and Recent changes – GST and its impact on Commerce and Industry – Centre, States financial relations- Recommendations of Recent Finance Commission – Public Expenditure and Public Debt - Fiscal Policy and Budgetary Trends

Module- 5Andhra Pradesh Economy
The basic characteristics of Andhra Pradesh economy after bifurcation in 2014 – Impact of bifurcation on the endowment of natural resources and state revenue – new challenges to industry and commerce - the new initiatives to develop infrastructure – Power and Transport - Information Technology and e-governance – Urbanization and smart cities – Skill development and employment –Social welfare programmes.

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LESSON – 1
INDIAN ECONOMY – A DEVELOPING ECONOMY

Aims and Objectives:

- To understand what are developed countries and developing countries.
- To understand the main features of Indian economy.
- To know as why Indian economy is still a developing economy.
- To understand Indian economy in the present scenario.

Structure

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1.2 Developed and Developing Economy
1.2.1 Developed Economy
1.2.2 Developing Economy
1.3 Difference between Developed and Developing countries
1.4 Indian economy
1.5 Basic characteristics of Indian economy
1.6 Is India a Developing Economy?
1.7 Summary
1.8 Key words
1.9 Self-Assessment Questions
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1.1 INTRODUCTION

India is a developing country. It is a mixed economy where we find both public and private sectors together. The Indian economy is growing very fast in the recent past. India is currently the world's fourth largest in terms of real GDP after the USA, China and Japan and the second fastest growing major economy in the world after China and it is the sixth-largest economy in the world.

India is one of the fastest growing economies of the world and is poised to continue on this path, with aspirations to reach high middle-income status by 2047. In the past two decades India has made remarkable progress in reducing poverty. Between 2011 and 2019, the country is estimated to have halved the share of the population living in extreme poverty - below \$2.15 per person per day (2017 PPP). In recent years, however, the pace of poverty reduction has slowed especially during the COVID-19 pandemic, but has since moderated in 2021-22.

Inequality in consumption continues, with a Gini index of around 35 over the past two decades. Child malnutrition has remained high, with 35.5 percent of children under the age of 5 years. Employment opportunities have improved since 2020 but concerns remain about the quality of jobs created and the real growth in wages, as well as around the low participation of women in the labourforce.India's aspiration to achieve high income status by 2047 will need to be realized through a climate-resilient growth process that delivers broad-based gains to the bottom half of the population. The World Bank is partnering with the government tostrengthen policies, institutions, and investments to create a better future for the country and its people through green, resilient, and inclusive development.

India emerged as one of the fastest growing economies in the world, despite significant challenges in the global environment – including renewed disruptions of supply lines following the rise in geopolitical tensions, the synchronized tightening of global monetary policies, and inflationary pressures.This lesson mainly discusses about Indian economy, its features and how it can be said that Indian economy is a developing.

1.2 DEVELOPED AND DEVELOPING ECONOMY

Various organizations have defined the concept of developed and developing economies in different ways. According to United Nations Development Programme's (UNDP) the economies of the world are divided into developed countries and developing countries. In its classification system, developed countries are countries in the top quartile of the HDI distribution. Developing countries consists of countries in the high group (HDI percentiles 51-75), medium group (HDI percentiles 26-50), and the low group with bottom quartile HDI.

According to International Monetary Fund (IMF) developed and developing countries are classified as advanced countries and emerging & developing countries. Advanced Economies are sub-categorized into Euro area, Major Advanced Economies (G7), Newly Industrialized Asian Economies, Other Advanced Economies, and the European Union. The Emerging and Developing Economies are sub categorized into Central and Eastern Europe, Commonwealth of Independent States, Developing Asia, ASEAN-5, Latin America and the Caribbean, Middle East and North Africa, Sub-Saharan Africa.

The main criteria used by the IMF in country classification are

i) per capita income level
ii) export diversification
iii) Degree of integration into the global financial system.

The IMF uses either sums or weighted averages of data for individual countries.

According to World Bank developed and developing countries are classified as high-income countries and low- and middle-income countries.The World Bank's classification of the world's economies is based on estimates of gross national income (GNI) per capita. World Bank Income classifications by GNI per capita are as follows:

- Low income: $1,025 or less
- Lower middle income: $1,026 to $4,035
- Upper middle income: $4,036 to $12,475
- High income: $12,476 or more

Low- and middle-income economies are usually referred to as developing economies, and the Upper Middle Income and the High Income are referred to as Developed Countries.

1.2.1 Developed Economy

Generally, developed economies refer to those economies with a high per capita income. They are also known as first world countries, industrialized advanced countries or self-sufficient countries. They are economies which are highly industrialized, have high-income, and advanced economies.A developed economy is typically characteristic with a relatively high level of per capita income or per capita gross domestic product, good economic growth and security. The general standard of living and high technological infrastructure is observed in developed countries.

Apart from the above-mentioned features noneconomic factors, such as the human development index (HDI) can also be taken into consideration to understand the level of development of an economy. Human development index quantifies a country's levels of education, literacy, and health which can be used to evaluate an economy’s degree of development.According to HDI, the country which is having a high standard of living, high GDP, high child welfare, health care, excellent medical, transportation, communication and educational facilities, better housing and living conditions, industrial, infrastructural and technological advancement, higher per capita income, increase in life expectancy etc. are known as Developed Country. These countries generate more revenue from the industrial sector as compared to service sector as they are having a post-industrial economy. Examples of countries with developed economies include the United States, Canada, Australia, France, Germany, Italy, Japan, Sweden, Switzerland, Western Europe, the United Kingdom and France.

The main features of developed countries are:

1. They have high GDP per capita.
2. The literacy rate is high.
3. They have advanced infrastructure in the country.
4. The life expectancy is also high.
5. The population growth rate is low in these countries.
6. They have a strong and stable political structures
7. They have advanced technology and innovation.
8. They emphasis more on tertiary sector.
9. They have a diversified economy
10. They have a high human development index.
11. Their educational system is well developed and advanced.
12. A developed financial system is in the economy.

1.2.2 Developing Economy

Developing countries are also referred as emerging countries or least developed countries or third world countries. A developing economy is that which has alow human development index, less growth, poor per capita income, and more inclined toward agriculture-based operations rather than industrialization and business. In other words, a developing economy is often referred to as an underdeveloped country or a less developed economy.

In such an economy, a government often has certain issues, like population growth, unemployment, rising poverty, poor infrastructure, low lifestyle quality, etc. As a result, the citizens of such countries are either dependent on government policies to sustain a better life because of inadequate resources and income.

A developing economy includes countries that are not performing well in industrialization, technology, and business trade. The common problems in these countries are many people living below the poverty line, unemployment, no better resources, lack of opportunities, hunger, poor standards of living and infrastructure, etc. In addition, governments of such countries are often in debt to other countries or to the World Bank and other international financial institutions or regulatory authorities. Examples of developing countries are: Algeria, African countries, Morocco, Pakistan, Egypt, Tunisia, and many more are in the list. India is also included in the list of developing countries.

According to the UN, a developing country is a country with a relatively low standard of living, undeveloped industrial base, and moderate to low Human Development Index (HDI). This index is a comparative measure of poverty, literacy, education, life expectancy, and other factors for countries worldwide.

The main features of developing economies are:

1. They have low GDP per capita.
2. They have low standard of living.
3. They have poor infrastructure in the country.
4. The life expectancy is also low.
5. The population growth rate is high in these countries.
6. They have unstable political structures.
7. They have poor technology and innovation systems.
8. They emphasis more on primary and secondary sector.
9. Economy depends more on few sectors of the society.
10. They have a low human development index.
11. There is high illiteracy rate.
12. Chronic problems like poverty, unemployment, over population etc., are present in the economy.
13. Developing economies are low on business trade, globalization, and technological advancement.
14. These countries are on low or no foreign reserves.
15. The currency exchange rate of such countries is very low, and they hardly play any role or contribute to the world economy

1.3 DIFFERENCE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

The main differences between developed and developing countries are as follows:

	Developed Countries	Developing countries
1	They have high GDP per capita and their national income is also high.	They have comparatively low GDP per capita and national income.
2	All the sectors of the society are well developed.	They are mainly agrarian economies and have slow pace of development.
3	Their educational system is well developed and advanced.	The illiteracy rate is high.

4	The standard of living and skills in the working population are high.	They have low standard of living and skill in the working population is also observed to be comparatively low.
5	They have advanced infrastructure in the country.	They have poor infrastructure in the country.
6	The life expectancy and quality of life is high	The life expectancy as well as quality of life is low.
7	The population growth rate is low in these countries.	The population growth rate is high in these countries.
8	They have a strong and stable political structure	They have unstable political structures.
9	They have advanced technology and innovation.	They have poor technology and innovation systems.
10	They emphasis more on tertiary sector.	They emphasis more on primary and secondary sector.
11	They have a diversified economy	Economy depends more on few sectors of the society.
12	They have a high human development index.	They have comparatively low human development index.
13	Their main problem is to maintain the level of development they achieved and maintain their growth rate.	Chronic problems like poverty, unemployment, inequalities, over population etc., are the major problems faced by the country.
14	A developed financial system is in the economy.	These countries are on low or no foreign reserves.
15	Switzerland, Norway, US, Australia, New Zealand, Korea, Japan, Denmark, UK etc., come under developed countries	Most of the African and Asian countries are in the list of developing countries

1.4 INDIAN ECONOMY

India is a developing economy, including a blended economy. India has most of the characteristic features that are in developing nations. India economy has overpopulation poverty, poor infrastructure, agro-based economy, slower pace of capital development, and low per capita income etc. Since independence, India has been creating numerous viewpoints according to the monetary perspective and has been changing from time to time. Indian economy has transitioned from a mixed planned economy to a mixed middle-income developing economy. India has also turned out to be the largest south Asian economy with large public sector in strategic sectors. It is the world's fifth largest economy in nominal GDP and the third largest in purchasing power parity (PPP). According to International Monetary fund (IMF), on basis of per capita income, India ranked 139^{th} place by GDP (nominal and 127^{th} place by GDP (PPP). Although the Indian economy is in the developing stage, it will gradually move to become a developed nation. Significant changes in the Indian economy were made in the year 1991.

Since independence all the governments followed Soviet model and promoted protectionist economic policies. But things change after 1991. Indian government has adopted broad economic liberalisation, indicative planning, privitisation and globalization. In 21st century, the annual average GDP has been 6 to 7%. The economy of Indian subcontinent was the largest in the world for most recorded history up until the onset of colonialism in the early 19th century. India accounts for 7.2% of the global economy in 2022 in PPP terms and around 3.4% in nominal terms in 2022.Indian economy underwent many ups and downs. Due to COVID – 19 the economic system was reversed to a great extent. Economic growth has slowed down. Due to demonetization in 2016 and introduction of GST in 2017, more changes took place in the nation.

The process of economic growth has not been balanced, at least across the major sectors of the economy— agriculture, manufacturing and services. The average annual rate of economic growth increased from 2.9 per cent in 1965–79 to 5.8 per cent in 1980–90. This was due to an increase in the rates of growth of the service sector, and the manufacturing sector. In 2000, the annual average rate of economic growth was 6.9 per cent in 2000–01 to 2010–11 and 5.4 per cent in 2011–12 to 2021-22. The annual average rate of growth of the agricultural sector has been around 3 per cent over 1991–2021. Since the early 1980s agriculture has been the laggard in economic growth in India.

There has been significant change in the structure of the Indian economy in the six decades since independence. In 1955, agriculture comprised 57 per cent of output, in 2021, it comprised 2 a mere 15 per cent. While in 1955, manufacturing comprised 9.9 per cent of output, in 2021, it was 18 per cent. This was mostly due to the growth in the output of the organised or formal manufacturing sector, from 4.9 per cent in 1955 to 11.2 per cent in 2012. The most remarkable feature of the Indian economy's structural change has been the increase in the share of the service sector—from 19 per cent of GDP in 1955 to 54 per cent in 2021.

1.5 BASIC CHARACTERISTICS OF INDIAN ECONOMY

India, as a developing country, features a mixed economy in the world. The major characteristics of developing economy are low per capita income, overpopulation, maximum population below the poverty line, poor infrastructure, agro-based economy and a lower rate of capital formation. Since, the independence of the country, India has been developing in many perspectives from the economic point of view. Although the Indian economy is developing in nature, it tends to move towards a developed economy. The major reforms in the Indian economy were done in the year 1991.

Basic characteristic features of Indian economy are:

1. **Low per Capita Income:** Per capita income is a measure of the amount of money earned per person in a nation. Per capita income is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population. It is calculated by dividing the country's national income by its population.

   The per capita income of India is much less than that of the developed countries. As per latest provisional estimate published on 31st May, 2023, India's per capita Net National Income (NNI) at constant (2011-12) prices increased by 35.12 percent from Rs. 72,805 in 2014-15 to Rs. 98,374 in 2022-23.

2. **Agro-Based Economy:** Indian economy is totally agro-based economy. Near about 14.2 % of Indian GDP is contributed by agriculture and allied sectors while 53% of the total population of the country depends upon the agriculture sector.

   Most of India's working population depends on agriculture for their livelihood. In 2011, about 58% of India's labour force was engaged in agriculture. Nevertheless, agriculture accounts for just over 17% of India's gross domestic product. A major concern for Indian agriculture is the very low productivity of this sector. The land has strong population pressure to feed a large number. Due to rural population pressure, the available land area per capita is very small and there is no benefit to obtaining higher yields. Second, less land is available per person, forcing the majority of people to become low-paid agricultural labourers. Third, Indian agriculture suffers from a lack of better technology and irrigation facilities. Fourth, Indian people, who have no education or training, work in agriculture. Therefore, it is one of the reasons for the decline in agricultural productivity.
3. **Overpopulation:** Overpopulation is one of the major concerns of the Indian economy. The population of India gets increased by about 20% in every decade. Around 17.5% of the world population is possessed by India.India is the most populous country in the world with one-sixth of the world's population. According to the UN estimates, India has overtaken China in having the largest population in the world with population of 1,425,775,850 at the end of April 2023.
4. **Disparities in Income:** The most alarming thing in the Indian economy is the concentration of wealth. According to the latest report, 1% of Indians own 53% of the wealth of the country. Among this, the top 10% owns a share of 76.30%. The report states that 90% of the country owns less than a quarter of the country's wealth. India's per capita net national income or NNI was around 170 thousand rupees in the financial year 2023 as against the annual growth rate of 13.7 percent in the previous year.

   The most disturbing thing in the Indian economy is the convergence of abundance. Few people in India own physical assets, but the majority has little or no assets in the form of land, houses, fixed deposits, company shares, savings, etc. As per the most recent report, 1% of Indians own 53% of the abundance of the country's wealth. Among these, the top 10% claim a portion of 76.30%. The report expresses that 90% of the nation claims under a fourth of the nation's wealth. This shows that economic power is concentrated in very few hands.
5. **Downfall in Capital Formation:** Rate of capital formation is positively correlated with lower level of income. There is huge downfall in Gross Domestic Capital compared to the previous years.

   The rate of capital development is emphatically associated with lower levels of pay or income. There is a tremendous decrease in Gross Domestic Capital contrasted with the earlier years. Gross Capital Formation (GCF) at current prices is estimated at ₹73.62 lakh crore for the year 2021-22 as compared to ₹55.27 lakh crore during 2020-21. The rate of GCF to GDP is 31.4 per cent during 2021-22 as against 27.9 per cent in the 2020-21.
6. **Poor Infrastructural Development:** According to a recent study, around 25% of Indian families cannot have access to electricity and 97 million people cannot have access to safe drinking water. Sanitation services cannot be accessed by 840 million people. India requires 100 million dollar to get rid of this infrastructural backwardness.

7. **Imperfect Market:** Indian markets are imperfect as there is lack of mobility from one place to another which contracts the optimum utilization of resources. As a result, price fluctuation occurs.
8. **Vicious Circle of Poverty:** India is a perfect example of the term 'a country is poor because it is poor.' The vicious circle of poverty traps these countries. The endless loop of neediness and poverty deals with both the supply side just as the demand side.

   The endless loop of neediness and poverty deals with both the supply side just as the demand side. On the supply side, there is an insufficiency of capital advancing or lending to low rates on investments, In demand side, the endless loop of poverty alludes to when the buying power based on the real income of the nation is low, prompting the exorbitance of products and services. This is the way the endless loop of neediness works, and it is somewhat normal to find in developing economies.

   About 269.3 million people lived in poverty in India from 2011-2012, according to the Indian government. This was about 22% of India's population. A person is said to be poor if he cannot consume the amount of food required to reach the minimum calorie count of 2400 in rural areas and 2100 in urban areas.
9. **Outdated technology:** Indian production is labour-intensive in nature. There is a lack of modern machinery and technologies. India is a country of eclectic mixes. On one side, a company uses one of the most modern technologies while another company from the same industry uses the most primitive one. Majority of products are made with the help of inferior technologies. If you take a simple look at the productivity of a developed and underdeveloped nation, then the developed nation has better productivity since it uses superior technologies.
10. **Backward Society**: Indian societies are trapped in the curse of caste system, communalism, male-dominated society, superstitions etc. The above factors are the major constraints of growth of Indian economy.
11. **Agro-Based Economy:** Indian economy is absolutely agro-based economy. As per the Economic Survey 2022-23, 65% of India's population lives in the rural areas and 47% of the population is dependent on agriculture for livelihood. The contribution of agriculture to GDP rose to 19.9% in 2020-21, up from 17.8% in 2019-20. As per the latest statistical records, 2020-21 the GVA contribution of Agriculture and allied activities is 20.19.
12. **Unemployment:** The workforce includes adults willing to work. If not enough jobs are created each year, the problem of unemployment will increase. In India, large numbers of people are joining the workforce each year due to population growth, a few more educated people, and the lack of expansion of the industrial and service sectors at the required rate.

   Due to the deficiency of capital in India, it is difficult to engage the entire population in gainful employment. Therefore, a cheap labour force is available in abundance. As a result, there is chronic unemployment and under-employment in our country.
13. **Planned economy:** India is a planned economy. The development process continued throughout five-year plan from 1951 to first planning period in 1956. Through planning, the country first establishes priorities and provides financial estimates for achieving the same. Therefore, efforts are being made to mobilize resources from various sources at a minimal cost. India has already completed 12 five-year planning periods. After each plan, a review is conducted to analyze successes and shortfalls. But even after 12 five year plans we are still a developing nation.

Despite several negative aspects, there are some positive things in Indian economy. Various schemes of the government have boosted up Indian economy. India is leading towards a better economic structure with the help of 'Make in India', 'Digital India,' etc. Today, India is experiencing economic growth and is widely recognized as a future economic powerhouse. India's per capita income is growing faster than ever before. India is considered a large market for various products. All this is possible due to planning in India.

1.6 IS INDIA A DEVELOPING ECONOMY?

India is one of the fastest developing countries in the world. The speed of development in our country is less and low compared to other countries. Even after 76 years of Indian independence the economy has not achieved several qualities, for which India is still considered as a developing nation. There are some important reasons because of which India is known as developing countries. Following are some of the important reasons behind this terminology:

1. **No Control over population:** India was in the Second rank in the population, but in terms of population quality, it is less because there is a lack of skilled people. But now India stands in the top position in population but the quality and skill of population is not up to the marked that it can be called as developed country.

   India's 2021 Population is estimated At 1.4 billion based on the most recent UN Data; the country has doubled in size in just 40 years.According to the UN estimates, India has overtaken China in having the largest population in the world with population of 1,425,775,850 at the end of April 2023.

   The India Skill Report 2023 reveals improvement in overall employability among young people, increasing from 46.2 percent to 50.3 percent this year. Additionally, the employable women workforce has risen significantly to 52.8 percent, surpassing the employability rate of men at 47.2 percent. In countries like Sweden, Switzerland, Singapore, Denmark, Australiahave better skilled workers than in India. Both quality and skill life of India workers is less than these countries.
2. **Corruption:** India is in the 85thposition in terms of corruption. In India, Most government departments are affected by corruption. Corruption is the biggest reason for poverty, which is another reason for poor lifestyles. It is one of the hindrances for growth of the country. Poverty and corruption are linked to each other.
3. **Inequality in Income:** In India, more than 25 percent of people live under the poverty line. In India, this Income inequality has negatively impacted poor citizens' access to education and healthcare. People who work in unorganized sectors are the biggest and the worst sufferers of economic inequality.In many places, people work for their daily wages is quite low. The government has developed many programs where a child are given free education till tenth but still, many the problem remains unsolved.
4. **Crimes, Political Influence:** Crimes and political influence have a significant impact on the development of India. They can create a culture of corruption and undermine the rule of law, which can hinder economic growth and social progress. They resist the development of the country. This can also contribute to a lack of accountability and transparency in government, which can further erode trust in public institutions and hinder investment and economic growth.Unethical practices like corruption, bribery, and extortion can give some businesses and investors an unfair advantage over others. This can discourage honest investors from putting their money into businesses or projects.

5. **Lack of Knowledge:** Many of Indians do not have any idea about our rights, we do not know, and this lack of knowledge is the biggest obstacle preventing us and our country from growing. If we compare ourselves with other country citizens, everyone knows about their rights, but we, as Indian citizens, have no idea what all rights we have. Knowledge always helps in every walk of like. As knowledge never fails, hence always filling your mind with positive knowledge and Cultural and Educational rights.
6. **Increase in Net National Product:**According to the CSO (Central Statistical Organization), India's net national product at factor cost i.e. national income was only Rs 1, 32,367 crores in 1950-51 increased to Rs 12,66,005 crores in 2003-04. During the last two decades the national income has increased significantly to 5.8% per year compared to 3.4% in first three decades. There is a slow pace of increase in the net national product.
7. **Increase in Per Capita Income:**Increase in per capita net national product at factor cost is considered to be better index of economic growth. According to 1993-94 prices, Indian's per capita income in 1950-51 was Rs, 3,687.1. In 2003-04, the per capita income rose to Rs 11,798.7.

   The Planning Commission expected that the per capita income would be doubled in twenty years. But this could not be achieved. Over twelve years since 1992, the per capita income increased at a rate of 4.2% per year. In the first two years of 10th Five Year Plan per capita NNP at Factor Cost increased at the rate of 4.7 per year. However, the overall performance throughout the planning period was not adequate due to long past colonial exploitation.
8. **Slow Industrial Growth**:Indian industries during the Third Five Year Plan observed a decent growth of about 8%, but thereafter industrial stagnancy took place. In 1976-77, the growth was abnormally high, but it decreased steadily during 1979 80. Again, it rose up during 80's, According to Economic Survey, the average annual industrial growth rate in India which was 5.6% in First Five Year Plan had increased to 8.6% during The Tenth Five Year Plan.
9. **Agricultural Development:** Indian agriculture is still a key sector of the country's economy. India's agricultural sector provides a living for more than 58 per cent of its residents. 57 per cent of the land is designated for crop cultivation, compared with a global share of approximately 12 percent. Indian farmers still use the old methods and technology to cultivate and mainly depend on monsoons. Because of all this Indian agriculture has not reached to that pole of achievement which it could have.
10. **Slow rise of Social Over Head Capital:**Social overhead capital includes transportation, irrigation, energy production, education, medical facilities etc. During the overall planning period these sectors had increased considerably but not to the satisfactory level that India can be called as developed nation.
11. **Low literacy rate :**India has a large number of illiterate population of the world with over 25% of population still uneducated.

1.7 SUMMARY

India is no doubt a developing country. It is a mixed economy where we find both public and private sectors together. The Indian economy is growing very fast in the recent past. India is currently the world's fourth largest in terms of real GDP after the USA, China and Japan and the second fastest growing major economy in the world after China and it is the sixth-largest economy in the world.

Despite the features of India economy which talk aloud that we are a developing nation, still there is a great hope and scope that India would turn out to be one of the developed nations of the world in the coming years. The rate at which India is developing definitely in the near future India would be categorized in the group of developed countries. We aim to become one of the developed countries of the world by 2047.

1.8 KEY WORDS

Developed countries: developed countries are countries in the top quartile of the HDI distribution. Developing countries consists of countries in the high group (HDI percentiles 51-75), medium group (HDI percentiles 26-50), and the low group with bottom quartile HDI.

Developing countries: Developing countries are also referred as emerging countries or least developed countries or third world countries. A developing economy is that which has a low human development index, less growth, poor per capita income, and more inclined toward agriculture-based operations rather than industrialization and business. In other words, a developing economy is often referred to as an underdeveloped country or a less developed economy.

1.9 SELF ASSESSMENT QUESTIONS

Long answers

1. What are the main features of Indian economy?
2. India is a developing country. Justify
3. What are the differences between developed and developing countries?
4. Write a note on Indian economy.

Short answers

1. Define Developing countries.
2. Define Developed countries.
3. What are the features of developed economies?
4. What are the features of developing economies?

1.10 SUGGESTED READINGS

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LESSON – 2
ECONOMIC DEVELOPMENT IN INDIA SINCE INDEPENDENCE

Aims and Objectives:

- To understand the concept of economic development.
- To know the indicators of economic development
- To know the mode of development in India.
- To understand structural changes in India since independence
- To understand the level of economic development in Indian economy since independence.

Structure

2.1 Introduction
2.2 Economic Development
2.3 Indicators of Economic Development
2.4 Economic Development in India
2.5 Structural Changes in Indian Economy
2.6 Economic Development in Various Sectors
2.6.1 Agricultural Sector
2.6.2 Industrial Sector
2.6.3 Service Sector
2.6.4 Disparities in Regional Growth
2.6.5 India's Economic Development Post 2014 Period
2.7 Summary
2.8 Key Words
2.9 Self Assessment Questions
2.10 Suggested Readings

2.1 INTRODUCTION

Economic development is the primary objective of the majority of the world's nations. Raising the well-being and socioeconomic capabilities of peoples everywhere is the most crucial requirement. In the process of development India has undergone different phases of development. After independence development of Indian economy had been a great exercise. By the end of the British rule there had been a marked intensification of poverty, as agricultural production stagnated and there was a collapse of artisanal industry. There was development in areas like trade and large-scale industry, especially textiles. Much of the growth in the economy occurred in regions favoured by colonial investments in irrigation and infrastructure, and the economy was unbalanced, both spatially and sectorally, at the time of independence. This chapter explains about the economic development in various sectors of Indian economy science Independence.

2.2 ECONOMIC DEVELOPMENT

In simple terms economic development refers to progressive changes in the socio-economic structure of a country. The concept of economic development is much broader than the concept of economic growth. Many a times these two terms are taken to be similar, but they are different concepts and have wide differences. Economic development is a quantitative as well as qualitative concept as it includes increase in real national income, real per capita income, economic welfare, human development, institutional and technological changes in the society.

The concept of economic development is defined by different economist in different ways. C.P. Kindle Berger defined these concepts as: “Economic growth means more output and economic development implies more output and changes in the technological and institutional arrangements by which it is produced”.

According to Colin Clark, “Economic development is simply an increase in the economic welfare”. As per G. M. Meier, “Economic development is defined as a process whereby the real per capita income of the country increases over a long period of time”.

According to Michael P. Todaro, “Economic development is a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty”. The concept of economic development can be summarized as:

1. Economic development is measured by the real per capita income.
2. It ensures equal distribution of income and wealth.
3. Economic development includes growth with structural changes.
4. It is a dynamic and long term process.
5. It leads to improvement of standard of living of the people, increase in employment opportunities and eradication of poverty.
6. It is multidimensional phenomena.
7. It is wider concept and related to developing countries.
8. It denotes qualitative changes in the economy.
9. It is over all development of the economy and indicates the distribution of income and wealth in the economy.
10. Economic development is possible only through government intervention.

2.3 INDICATORS OF ECONOMIC DEVELOPMENT

The economic indicators help to understand the performance of any economy. These indicators help in better planning towards achieving economic development. Following are the indicators of economic development:

1. **Real National Income:** To understand the level of economic development real income is calculated on constant prices. If there is an increase in the national income, then it shows that the economy is moving in the path of economic development. If there is high rate of increase in the national income, then development rate is also considered to be high and vice versa.

2. **Per Capita Income:** per capita income means income per head. It is calculated by dividing national income with population of the country. It is the average income of

the people living in the country. A rise in the per capita income shows economic development of the country. A rise in the per capita income also indicates economic welfare of the country.

It is used to compare the standard of living between various countries. It helps to understand and ascertain the level of development in the country. It is one of the satisfactory measure which helps to know the economic development of the country.

3. **Per Capita consumption:** Per capita consumption is consumption of goods and services by the people in the country. If there is an increase in the per capita income that shows that the economy is in the process of economic development. Per capita consumption is a good indicator to understand the level of economic development in the country. An increase in the use of consumption goods and services like clothing, food, education, health etc., show development in the country. An increase in the per capita consumption shows better quality of life of people and higher economic development of the country.

4. **Physical Quality Life Index:** It measures the social progress of the society. It was developed by famous economist, Morris David Morris. It shows the overall welfare of the people in life expectancy, infant mortality rate, standard of living, health, education, sanitation, nutrition etc. It is calculated on basis of three parameters namely – life expectancy, infant mortality rate, literacy rate. All three indicators are measured on a scale from 1 to 1000, where one represents the worst performance nd 100 the best performance. The average value of these three components is physical quality of life index.

   HDI measures life expectancy, education and standard of living. A rise in physical quality life index and Human Development Index shows an improvement in quality of life of people and therefore economic development.

   It helps to understand the well-being of the society and therefore considered to be a social indicator.

5. **Industrial progress:** Industrial progress is an important indicator of the economic development of a country. It helps to increase per capita income and the national output of the country.

6. **Capital formation:** Capital formation is related to investing in transport, irrigation, roads, electricity, technology etc. Higher capital formation will lead to higher economic development.

7. **Measure of Economic Welfare:** The concept was introduced by William Nordhaus and James Tobin. It is and addition to Gross national product and an indicator to measure economic development of the country. It takes into consideration the national output and other indicators like value of leisure time, amount of unpaid work in the economy. Further it deducts the value of environmental damage caused by industrial production and consumption which changes the value of Gross National Product.
8. **Net Economic Welfare:** it is a broader concept to measure economic welfare. It adjusts gross national product by adding the value of beneficial non-market activities such as leisure and Subtracting damages or bad things from it such as pollution. It can be expressed in a formula as:

New Economic Welfare = GNP + Value of Housewives Services + Value of leisure – Expenditure on defense – Cost of Environment Degradation.

9. **Human Development Index:** This index is used to gauge a country's general accomplishment in its social and financial aspects. It was introduced by the United Nations Development Program (UNDP) in the World Human Development Report in 1990 to measure well-being. It was development by an economist, Mahbub ul Haq. As mentioned earlier three concepts are taken as indicators to know the development level of the country.
   a. Life expectancy – it is calculated by knowing how healthy and long life the people of the country have.
   b. Literacy – it is measured on basis of access to education in the country. It also takes into consideration the adult literacy rate and enrolment ratio.
   c. Standard of living – it is calculated on basis of gross national income of the country.

The indicators under economic development are more towards the qualitative improvement of people in the country. A higher rate of these indicators shows a higher level of economic development.

2.4 ECONOMIC DEVELOPMENT IN INDIA

The objective of India's development strategy since independence has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors co-exist. India initiated planning for national economic development with the establishment of the Planning Commission.

The aim of the First Five Year Plan (1951-56) was to raise domestic savings for growth and to help the economy resurrect itself from colonial rule. The Second Five Year Plan which is also known as Nehru-Mahalanobis Plan gave importance to industrialization. The industrialization strategy articulated by Professor Mahalanobis placed emphasis on the development of heavy industries in the economy. The entrepreneurial role of the state was evoked to develop the industrial sector.

The objectives of industrial policy were: a high growth rate, national self-reliance, reduction of foreign dominance, building up of indigenous capacity, encouraging small scale industry, bringing about balanced regional development, prevention of concentration of economic power, reduction of income inequalities and control of economy by the State.

The strategy in the first three plans assumed that once the growth process gets established, the institutional changes would ensure that benefits of growth trickle down to the poor. Public sector did not live up to the expectations of generating surpluses to accelerate the pace of capital accumulation and help reduce inequality. Agricultural growth remained constrained by perverse institutional conditions. There was unchecked population growth in this period. Though the growth achieved in the first three Five Year Plans was not insignificant, yet it was not sufficient to meet the aims and objectives of development.

A shift in policy was called for in the Fifth Plan (1974-79) by emphasizing growth with redistribution. Economic liberalization was started in the mid 1980s. Three important committees were set up in the early 1980s namely, Narsimhan Committee for fiscal controls, Sengupta Committee on the public sector and the Hussain Committee on trade policy. As a result there was some progress in the process of deregulation during the 1980s. Between 1950 and 1990, India's growth rate averaged less than 4 per cent per annum and this was at a time when the developing world, including Sub-Saharan Africa and other least developed countries, showed a growth rate of 5.2 % per annum.

The government began to borrow not only to meet its own revenue expenditure but also to finance public sector deficits and investments. During 1960-1975, total public sector borrowings averaged 4.4 % of GDP. These increased to 6 % of GDP by 1980-81, and further to 9 % by 1989-90. Thus, the public sector, which was supposed to generate resources for the growth of the rest of the economy, gradually became a net drain on the society as a whole.

In the beginning of 1990's reform process was started by the then Finance Minister of India. India has undergone a drastic change in this time, which can be understood in the following points:

1. India's economic reforms began in 1991 under the Narsimha Rao Government. Due to Gulf War in 1990 balance of payments was totally disturbed. More over the economy had internal political instability, the balance- of-payments crises led to crisis of confidence which intensified in 1991. Foreign exchange reserves dropped to $1.2 billion in 1991, it was just sufficient for two weeks of imports and a default on external payments appeared inevitable. The shortage of foreign exchange forced tightening of import restrictions, which in turn led to a fall in industrial output.
2. The economic reforms of 1990's had two broad objectives. One was the reorientation of the economy from a statist, centrally directed and highly controlled economy to what is referred to in the current jargon as a 'market- friendly economy'. And second objective of the reform measures was macro-economic stabilization through reducing fiscal deficits and the government's draft on society's savings.
3. Compared with the historical trend, the impact of these policies has been positive and significant. The growth rate of the economy during 1992-93 to 1999-2000 was close to 6.5 per cent per annum. The balance of payments position has also substantially improved. Despite several external developments, including the imposition of sanctions in 1998 and sharp rise in oil prices in 2000-01, foreign exchange reserves are at a record level. Current account deficits have been moderate, and India's external debt (as a percentage of GDP) and the debt servicing burden have actually come down since the early nineties. The rate of inflation has also come down sharply.
4. The growth rates in agricultural and industrial production have not increased at all in the nineties, compared with the eighties. The increase in overall growth in the 1990's is overwhelmingly driven by accelerated growth of the *'service' sector*. The service sector includes some fields, such as uses of information technology and electronic servicing, in both of which India has made remarkable progress. This was largely a result of the liberalization policies. The current restructuring to the Indian economy towards this skill and education-intensive sector reinforces the resources to a certain section of the society only.
5. Experience prior to the 1990s suggests that economic growth in India has typically

reduced poverty. Using data from 1958 to 1991, Ravallion and Datt (1996) find that the elasticity of the incidence of poverty with respect to net domestic product per capita was –0.75 and that with respect to private consumption per capita it was –0.9. Some economists have argued that poverty has fallen far more rapidly in the 1990s than previously. Others have argued that poverty reduction has stalled and that the poverty rate may even have risen. The basic question of measuring India's poverty rate has turned out to be harder to answer than it needed to be because of difficulties with coverage and comparability of the survey data. Correcting for all those, Datt and Ravallion in a recent study find that India has probably maintained its 1980s rate of poverty reduction in the 1990s, though they do not find any convincing evidence of acceleration in the decline of poverty. All of the estimates were made with respect to head-count indexes.

6. During the first two years of the reforms when the fiscal stabilization constraints were dominant it dipped a little, but after that it increased. However, expenditure trends in the states, which accounts for 80 percent of total expenditures in this area, show a definite decline as a percentage of GDP in the post-reform period. Taking central and state expenditures together, social sector expenditure has remained more or less constant as a percentage of GDP.
7. The decline of infant mortality appears to have slowed down in recent years. During the 80s India achieved a reduction of 30 per cent in the infant mortality rate – from 114 to 80 between 1980 and 1990. During the 90s, however, the infant mortality rate declined by only 12.5 per cent- from 80 to 70.
8. Similarly, the growth rate of real agricultural wages fell from over 5 percent per year in the 1980's to 2.5 percent or so in the 1990s.
9. Literacy has greatly improved during the reforms. The literacy rate increased from 52 percent in 1991 to 65 percent in 2001, a faster increase in the 1990s than in the previous decade, and the increase has been particularly high in some of the low literacy states such as Bihar, Madhya Pradesh, Uttar Pradesh and Rajasthan.
10. It was observed that there was a rise in economic inequalities in the reforms period. Two aspects are well established. First, interstate economic disparities have risen in the 90s and second, there is also strong evidence of rising rural-urban disparities in the 90s, as one might have expected given the sectoral imbalances discussed earlier.

India had a major setback in her planning process when she turned inwards following the balance of payments crises in 1956-57. The explicit strategy of an IS strategy (Import Substitution) was desired then, reflecting the economic logic of elasticity pessimism that characterized the thinking of Indian planners. The result was that the inducement to invest in the economy was constrained by the growth of demand from the agricultural sector and the public sector savings. But agriculture has grown nowhere by more than 4 per cent per annum over a sustained period of over a decade. Liberalization program of Manmohan Singh in 1991 was a welcome step towards achievement. Unfortunately, the second step of the developmental process, that of derived demand for education and other social issues, have been far from being realized at least a decade after the reform process.

2.5 STRUCTURAL CHANGES IN INDIAN ECONOMY SINCE INDEPENDENCE

Economic development has historically been associated with 'structural changes' in the economy. 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 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’.

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. Apart from the growth in quantitative terms, there have been significant changes in India’s economic structure since independence.

1. **Changing Sectoral Distribution of Domestic Product**: Change in composition of domestic product or change in national income by industry of origin refers to change in relative significance of different sectors of the economy. Generally, an economy is divided into three major sectors viz. primary, secondary and tertiary sectors.

   Primary sector includes agricultural and allied activities, secondary sector includes manufacturing industries and tertiary sector includes services. With the development process, significance of primary sector declines while that of secondary and tertiary sectors increases. After independence, Indian economy has also experienced such changes. The share of primary sector in GDP at factor cost (at 1999-2000 prices) which was 56.5 per cent in 1950-51 declined to 34.6 per cent in 1990 91 and then to 19.7 per cent in 2007-08.

   The secondary sector’s share in GDP was 13.6 per cent in 1950-51 increased to 23.2 per cent in 1990-91 and further to 24.7 per cent in 2007-08. Tertiary sector’s share in GDP increased from 29.9 per cent in 1950-51 to 55.6 per cent in 2007-08, and in 2009-10 it was over 7 per cent.
2. **Growth of Basic Capital Goods Industries:** When country attained independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth. Under the second plan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to the overall growth of the economy. Consequently, a large number of basic industries which produce capital equipment and useful raw materials have been set up making the country’s industrial structure pretty strong.
3. **Expansion in Social Overhead Capital:** Social overhead capital broadly includes transport facilities, irrigation systems, energy production, educational system and organisation and health facilities. Their development creates favourable conditions for growth and also for better human living. The transport system in India has grown both in terms of capacity and modernisation.

   The railways route length increased by more than 9 thousand kms and the operation fleet practically doubled. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. India has also seen growth in Life- expectancy and Literacy Rate but education has not expanded at a desired rate.
4. **Progress in the Banking and Financial Sector:** Since independence, significant progressive changes have taken place in the banking and financial structure of India. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and money-lenders has declined.

Since nationalisation, these banks have radically changed their credit policy. Now more funds are made available to priority sectors such as agriculture, small-scale industries, transportation, etc. Indian economy has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, etc. These factors over the years are believed to have created an element of dynamism in the country's economy and one can now hopefully say that it would sustain development in the future.

5. **Progress in national income:** In India, after independence, the first report on National Income estimates was published in 1951. The report was prepared by a committee under the Chairmanship of Prof. P.C. Mahalanobis with Prof. D.R. Gadgil and Dr. V.K.R.V. Rao as members. The estimated total national income for the year 1948-49 was placed at Rs. 8,830 crore. Subsequent, estimates of national income have been published annually. The estimates of national income are nowadays presented both in current and constant price series in the annual publication called the National Accounts Statistics.

During the three decade period of 1951 to 1979, only in two plan periods i.e., in the first and the fifth plan periods India could meet the target which were 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) Three wars with neighbouring countries fought in 1962, 1965 and 1971
(ii) Three major droughts during 1966, 1972 and 1979. This has affected the economic performance of the country. India's national income was around 3.5 percent which has been described as the Hindu rate of growth by economist Raj Krishna. There was 5 percent annual growth rate in the fifth plan period which is despite the fact that the year 1979-80 registered a negative growth.

In the 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 national income 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.

Compared to global economy, Indian economy experienced slow growth rate. In 1990's there were many ups and downs in the economy due to adoption of economic reforms. 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 succeeded to continued reforms. There was instability in political atmosphere in 2009-2014 after a 5-year period of relative stability during 2004-09. In 2009-14 many scams came into light. All this had direct or indirect affect on national income of the country. Twelfth Plan figures account, the average long term growth rates in India's national income. National income has increased in 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.

2.11 ECONOMIC DEVELOPMENT IN VARIOUS SECTORS

2.6.1 Agricultural sector:

After a period of slow growth in the 1950s, the new Borlaug seed-fertilizer technology introduced in the mid-1960s had a significant impact on raising yields and output levels of some crops and ushered in the Green Revolution and a rise in India's aggregate agricultural production.

In the beginning, the new technology was initiated for wheat in the irrigated north-western region of India, but by the1970s, the Green Revolution had covered rice and other crops, and had spread to other parts of the country and to small producers. The growth rate of agricultural output at All-India level accelerated from 2.24 per cent per annum in 1962–83 to 3.37 per cent per annum in 1980–93. Most of the output growth was due to productivity, with yields accounting for 85.2 per cent of output growth. In the 1980–93, agricultural growth kicked off in the previously stagnant states of eastern India. By 1992–93, the diffusion of high-yielding varieties of seeds which formed the basis of the Green Revolution was more or less complete, with about 90 per cent of wheat area and 70 per cent of rice area occupied by them. There was a strong association between agricultural growth and rural poverty decline in this period.

However, since 1993, output growth has decelerated to 1.74 per cent per annum, a slowdown observed in most states of India. At the same time, there was a shift in cropping pattern changes towards high-value crops compared to the period 1980–93 before the agricultural reforms. In addition, the land/labour ratio has increased in most regions in India, in part due to the weak demand for labour from the non-farm sector and in part, due to the decline in agricultural productivity in the post-reform period, which implied falling productivity-induced demand for labour from the farm sector. The exhaustion of the possibility of an increase in the gross cropped area of most parts of India meant that agricultural development relied heavily on intensive growth. It is not clear what led to the decline in agricultural productivity in the post-reform period—a decline in public investment in agriculture may have been a contributing factor, though input subsidies to agriculture increased during the 'reforms. In addition, expenditure on the public-sector agricultural research system for agriculture faltered, as did the productivity of the research system.

The economic reforms themselves were not directly targeted to the agricultural sector, though there were indirect effects working through changes in the credit system for agriculture, with a weakening of the mandatory requirements for commercial banks to open rural and semi-urban branches, as well as an improvement in the terms of trade for agriculture in the 1990s as protection for industry was removed leading to a fall in industrial prices.

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 years is around 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 was around 48.9 percent in 2011-12.

2.6.2 Industrial sector:

Prior to the reforms, the licensing policy served to divorce market-determined investment decisions from any guidelines that international opportunity costs might have otherwise provided. There was little incentive for firms to export, given the high profitability of producing for the domestic market, and it thus contributed to high levels of inefficiency in the industrial sector. As a result of reforms, domestic deregulation has little effect on productivity and innovation. Trade liberalization, especially in the form of access to imported intermediate goods, has been the dominant factor behind the increase in productivity growth in Indian manufacturing. The industrial sector is still dominated by state-owned firms and business groups and there is limited new firm entry in the formal manufacturing sector. The reasons for this appear to be first, significant impediments to firm exit in form of stringent bankruptcy laws which still favour restructuring of existing loss-making firms rather than closure, and second, the political connections that incumbents have which allow them to prevent entry of new firms, especially in concentrated, profitable industries and in industries dominated by state-owned corporations.

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

2.6.3 Services sector:

The service sector had the fastest growth rate of all three sectors in the post-1991 period. Between 1993 and 2004, the two fastest growing service sectors were business services and communications. This was mostly due to the advent of cellular technology as the government opened telecommunications to the private sector by relinquishing its monopoly control over communication services. Economic reforms that relaxed the entry of foreign firms into the services sector were also directly behind service sector growth as the share of services in foreign direct investment increased from 10.5 per cent in the early 1990s to nearly 30 per cent in the second half of the decade. As a consequence of the entry of outward-oriented foreign direct investment (FDI) into the information technology sector after 1992, software exports grew substantially—at nearly six times the rate for world exports of services.

There were many major structural changes in the Indian economy over the six decade period in services sector. The share of service sector varied from 30 percent of its share in GDP in 1951 to 59 percent in 2012. This pace of expansion is due to the growth of services sector constituents like communications, banking and insurance. The reasons for the rapid growth of the services sector are:

a) Due 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 sector;
b) Rapid development of Information Technology services has proved to be a great source of expansion for the communications sector
c) Defence, civil administration, economic and social services like health and education have also made a huge contribution for the growth of service sector
d) 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.

The share of industries in GDP has remained stagnant at around 27 percent since 1991. India has developed service sector first bypassing industrial development. The reasons for this trend are:

1. Development of communication technologies which has generated demand for skilled jobs causing the movement of people across countries
2. Demonstration effect by developed countries leading to change in demand pattern for services in India.

2.6.4 Disparities in Regional growth:

Economic growth in India has been strong since the middle of 1980s. However, not all regions in India have benefited equally. States like Andhra Pradesh, Gujarat, Karnataka, Kerala and Tamil Nadu have grown at a rate of per capita income which has exceeded 4.5 per cent per annum during the period. On the other hand, states such as Assam, Bihar and Madhya Pradesh have grown at around 2 per cent or less in the same period. Land-locked states such as Punjab and Haryana have exhibited strong economic growth and coastal states such as Orissa have shown significantly weaker economic performance.

India's federal structure and the significant political autonomy and independence in legislative powers enjoyed by state governments, along with regional variations in the collective strength of the economic and political elite have allowed for the variation in regional institutional quality that has been important for explaining the differences in regional performance. States in India followed very different strategies with respect to the private sector and economic growth. In addition to differences in institutional quality, initial conditions such as differences in agro-climatic factors have led to the uneven impact of the Green Revolution, and consequently, divergence in agricultural growth. This has also contributed to the differences in regional economic development across the country.

The percentage of population living below the poverty line in different states needs to be taken into account for minimizing 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 percentage of population below poverty line in some states was: 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.

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. 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 of seeds in agriculture has aggravated regional disparities.

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 programs, concessional finance, etc.

The economic growth path of the states of Andhra Pradesh and West Bengal provide strong support for the argument that far more than geographical factors, political and economic institutions played a key role in the differing economic performance of these two states. West Bengal had favourable initial conditions at independence with a relatively large industrial sector, and a large professional class. However, West Bengal has witnessed slow economic growth, especially since the late 1960s, and a gradual decline in its manufacturing sector.

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 programs and schemes are being made.

2.6.5 India's economic development post 2014 period

In May 2014, a new government led by the Bharatiya Janata Party (BJP), as part of the National Democratic Alliance (NDA) coalition, took office at the central level in India, replacing the United Progressive Alliance (UPA) government which had ruled India since 2004. The most dramatic policy initiative in the post-2014 period was *demonetization*. It aimed to make a series of attempts to recover the black money held abroad, but without great success.

On 8 November 2016, the government made an unexpected announcement, that it was demonetising all 500 and 1000 rupee notes. It also announced the issuance of new 500 and 2000 rupee notes in exchange for the demonetised banknotes. The aim of the demonetization policy was to deal a death blow to the black economy by reducing the use of illicit cash to fund terrorism and illegal activities. The secondary objective was to create an impetus for the formalization of economic activity by incentivising the use of credit and debit cards in ordinary transactions instead of cash.

In terms of economic impact, economic growth slowed considerably following demonetization. The economy was negatively affected by two large shocks:

(a) An aggregate demand shock due to the reduction in the money supply because of the withdrawal of high value currency notes

(b) An aggregate supply shock due to the shortage of cash in sectors such as agriculture which depend on the availability of liquid funds for the purchase of critical inputs such as fertiliser and seeds. As a consequence, economic growth slowed to a four-year low in 2018.

The government's second bold policy step was to launch the goods and services tax (GST) in July 2017. The new GST system replaced many central and state taxes on the same base with a country-wide common framework and minimized the complexity by applying a common base and rates across the entire country. The system largely used four rates of taxation any taxation that is applied when goods cross state borders allowing for minimum tax based restrictions on trade. The new tax system seeks to improve tax compliance. The aim of the GST policy was to create a unifying tax system in India. The initial effect of the introduction of the GST was negative on the economy. However, the new GST system is likely to reduce significant inefficiencies in the previous tax system and lead to the creation of a unified market in India. Therefore, the prospects of higher growth in the Indian economy is positive due to the launch of the GST.

During the COVID-19 pandemic period, the Indian economy experienced a sharp downturn in the fiscal year 2020–21, with a negative GDP growth rate of 6.6 per cent, due to a combination of national and regional lockdowns and lower economic activity directly attributable to the pandemic itself. There was a mild recovery in economic growth of 8.7 per cent in the following fiscal year. In 2023, the International Monetary Fund expects the Indian economy to growth by 6.1 per cent, one of the highest growth rates among developing countries. A large part of India's growth renaissance in recent years can be attributed to a large and expanding domestic market. Specific Investments have led to strong growth in the information technology and e-commerce sectors. However, there has been lack of success in creating jobs for the large proportion of India's labour force who are unskilled and poor, especially in the post-2010 period.

2.7 SUMMARY

The Indian economy has shown considerable growth and structural transformation since independence. Starting out with a mostly agrarian economy with a small modern industrial sector and an insignificant services sector, the Indian economy currently is one of the largest in the world in terms of gross domestic product, with many modern industries and an export-oriented dynamic information technology sector. India has good development in all the fields but has not done well enough in formal manufacturing, especially in export-oriented industries. Regional disparities have been good enough. Therefore, while the economic foundation of the Indian economy is significantly stronger in the 2000s as compared to at the time of independence, not all sectors or regions of the economy have shown strong economic development since independence.

2.8 KEY WORDS

Economic development refers to progressive changes in the socio-economic structure of a country. The concept of economic development is much broader than the concept of economic growth. Many a times these two terms are taken to be similar, but they are different concepts and have wide differences.

New Economic Welfare = GNP + Value of Housewives Services + Value of leisure – Expenditure on defense – Cost of Environment Degradation

Human Development Index: This index is used to gauge a country's general accomplishment in its social and financial aspects. It was introduced by the United Nations Development Program (UNDP) in the World Human Development Report in 1990 to measure well-being. It was development by an economist, Mahbub ul Haq.

2.9 SELF ASSESSMENT QUESTIONS

Long answers

1. What are the indicators of economic development?
2. Explain the trends in development in India since independence.
3. Explain structural changes in Indian economy since independence.
4. Regional disparities
5. Explain trends of development in agriculture sector.

Short answers

1. Explain the concept of economic development.
2. What is economic development?
3. Explain economic development in recent past.

2.10 SUGGESTED READINGS

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LESSON – 3
PLANNING IN INDIA

Aims and Objectives

- To understand the concept of planning.
- To understand the objectives of planning in India.
- To know types of planning, features and achievements of planning in India.
- To analyze the reasons of failures of planning.
- To understand about NITI Ayog and their approaches to economic development in India.

Structure

3.1 Introduction
3.2 Economic planning
3.3 Economic Planning in India
3.4 Types of Planning in India
3.5 Objectives of Economic planning in India
3.6 Feature of Economic Planning in India
3.7 Need for Economic planning in India
3.8 Achievement of Planning in India
3.9 Failures of Planning in India
3.10 NITI Ayog
3.10.1 NITI Ayog in economic planning
3.10.2 Nature of NITI Aayog
3.10.3 Major Objectives of NITI Aayog
3.10.4 Organisational Structure of NITI Aayog
3.10.5 Functions of NITI Aayog
3.11 Summary
3.12 Key words
3.13 Self Assessment Questions
3.14 Suggested Readings

3.1 INTRODUCTION

Economic planning in India refers to the process of creating a long-term vision and strategy for the country's economic development. Economic planning in India started in 1951. It started with the adoption of the First Five-Year Plan, which was designed to promote economic growth, reduce poverty and unemployment, and improve the standard of living of the people.

The main objective of economic planning in India is to achieve balanced and sustainable economic growth that benefits all sections of society. To achieve these objectives the process involves allocation of resources, the formulation of policies, and the implementation of programs to achieve the desired economic outcomes.

Like any other concept, even economic planning has both good and bad outcomes on Indian economy. Even though India has grown economically and poverty has reduced in the past few years, still there are some issues like inequality, unemployment and unequal development in different areas. The government is working hard to make the planning outcomes better so that these problems can be solved and economic growth can be steady, still we have not reached the targets that we set to achieve.

3.2 ECONOMIC PLANNING

Economic planning involves developing strategies and policies to achieve economic goals. This is done by setting objectives, prioritizing them, allocating resources, and implementing measures. Planning can be done at different levels, such as national, regional, or local. Once goals and priorities are identified, policies and strategies are developed, such as focusing on infrastructure, promoting exports, or improving access to education and healthcare. These policies are then implemented through programs and schemes. implement them. Economic planning is when a government or organization decides what things are important and how to use the money to achieve certain goals. They make plans based on predictions and decide what rules to put in place to control the economy. The main goal of economic planning is to help the economy grow and improve in a way that can be maintained for a long time.

Mrs.Barbara Wooton defines it as "Economic planning is system in which the market mechanism is deliberately manipulated with the object of producing a pattern other than which would have resulted from its own spontaneous activity".

Herman Levy defines it as "Economic planning means securing a better balance between demand and supply by conscious and thoughtful control either of production or distribution".

Dr. Dalton says, "Economic planning in the widest sense is the deliberate direction by persons in charge of large resources of economic activity towards chosen end."

Lewis Lorwin defines a planned economy "as a scheme of economic organization in which individual and separate plants, enterprises and industries are treated as coordinate units of one single system for purpose of utilizing all available resources to achieve for maximum satisfaction of the people's needs within a given time."

National Planning Commission of India- "Planning under a democratic system may be defined as the technical co-ordination, by disinterested experts, of consumption, production , investment, trade and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics and the raising of the standard of living but mist include cultural and spiritual and the human side of life".

To sum up, planning comprises the following main features:

1. Predetermined and well defied objectives or goals.
2. For economic planning deliberate control and direction of the economy by a central authority, e.g., the state.
3. Optimum utilization of natural resources and capital which may be scarce and labour that may be abundant.
4. The objectives are to be achieved within a given interval of time – 5 years, 7 years, etc.
5. The performance of the economic functions of increasing production, maximizing employment and controlling population growth so that production outstrips population growth.

3.3 ECONOMIC PLANNING IN INDIA

Economic Planning is a way of organising and utilising economic resources to maximum advantage to achieve the socio-economic goals. The concept of economic planning in India was not altogether new one. Even under British Rule, there had been good deal of economic planning. The first idea of planning for India was advocated by *Sir Mokshagundam Vishvesvarayya* who published the book on economic planning entitled as “Planned Economy for India” in 1934. He is the Architect of Indian Economic Planning . He was a prominent Indian engineer, statesman, and scholar who played a key role in shaping the economic planning and development of India. He served as a member of the Planning Commission of India and played a key role in creating the First Five Year Plan, which was implemented in 1951.

In 1937, the Indian National Congress set up the National Planning Committee under the chairmanship of Late Pandit Jawaharlal Neharu. But owing to the great political changes, the work of the committee remained suspended from 1944 to 1946. The committee submitted its report in 1949. Though the planned economic development in India began in 1951 with the inception of First Five Year Plan, theoretical efforts had begun much earlier, even prior to the independence. Setting up of National Planning Committee by Indian National Congress in 1938, The Bombay Plan & Gandhian Plan in 1944, Peoples Plan in 1945 (by post war reconstruction Committee of Indian Trade Union), Sarvodaya Plan in 1950 by Jaiprakash Narayan were steps in this direction.

Brief History of Plans in India:

- The concept of Planning as a process of rebuilding the economy gained importance in the 1940s-50s.
- Various Industrialists came together in 1944 and drafted a joint proposal for setting up a planned economy in India. It is famously known as the Bombay plan
- Planning for development was seen as a crucial choice for the country, following Independence.
- Joseph Stalin was the first person to implement the Five-Year Plan in the Soviet Union, in the year 1928.
- India launched a series of Five-Year Plans after independence to build its economy and attain development.
- The idea of five-year plans is simple. The Government of India prepares a document with all its income and expenditure for five years.
- The budget of the central government and all the state governments is divided into two parts: The non-plan budget is spent on routine items yearly. The planned budget is spent on a five-year basis as per the priorities fixed by the plan.
- The model of the Indian Economy was premised on the concept of planning based on five-year plans from 1951-2017.
- The Five Year Plans were formulated, implemented and regulated by a body known as the Planning Commission.
- The Planning Commission was replaced by a think tank called **NITI AAYOG** in 2015.
- The Niti Aayog has come out with three documents — 3-year action agenda, 7-year medium-term strategy paper and 15-year vision document.

3.4 TYPES OF ECONOMIC PLANNING IN INDIA

Economic planning in India can be categorized into different types based on various factors such as the approach, focus, scope, and level of centralization. The types of economic planning in India aim to promote sustainable economic growth, reduce poverty and inequality, and provide access to basic amenities for all sections of society. Below are the various types of economic planning followed in India:

- **Planning by Direction:** Planning by direction is a type of planning where the government controls and directs the allocation of resources and the production of goods and services.
- **Planning by Inducement**: Planning by inducement, on the other hand, is a type of planning that encourages private investment and entrepreneurship through incentives and market-oriented policies.
- **Financial Planning:** Financial planning focuses on the allocation of financial resources.
- **Physical Planning**: It focuses on the allocation of physical resources such as land, water, and minerals. Both types of planning are important for achieving sustainable economic growth and development.
- **Indicative Planning:** Indicative planning provides guidelines and targets for the private sector and market forces to follow.
- **Imperative Planning: I**mperative planning involves mandatory regulations and controls to achieve specific targets.
- **Centralized Planning:** Centralized planning involves the central government taking the lead in the planning and implementation process.
- **Decentralized Planning**: Decentralized planning involves devolving the planning and implementation responsibilities to lower levels of government such as states, districts, and local bodies.
- **Rolling Plans:** These are flexible plans that are reviewed and revised annually to reflect changing economic conditions and priorities
- **Fixed Plans:** These plans have a fixed duration and are not subject to mid-term revisions.

In India economic planning falls under the concurrent list, which means, both the central government and the state governments have the power to make laws on this subject, with the primary responsibility for economic planning lying with the Union government. State governments can participate in the planning process and implement the plans within their respective jurisdictions. The subject of economic planning is included in the Concurrent List (List III) of the seventh schedule of the Indian constitution. This means that both the Central Government and the State Governments can make laws and policies related to economic planning.

3.5 OBJECTIVES OF ECONOMIC PLANNING IN INDIA

Economic planning has been an integral part of India’s development strategy since its independence. The main objective of economic planning in India is to achieve rapid economic growth while promoting social justice and reducing poverty. This has been achieved through various Five-Year Plans, which outline the country’s economic and social goals and policies to achieve them. Some of the objectives of economic planning in India are as following:

1. **Economic growth:** One of the primary objectives of economic planning in India is to promote economic growth, which is measured in terms of gross domestic product (GDP). This involves increasing the production and consumption of goods and services in the country, creating jobs, and reducing poverty.
2. **Reducing Poverty:** Economic planning also aims to reduce poverty and create employment opportunities by increasing the productivity of the workforce, and providing basic amenities to the poor.
3. **Self-Sufficiency:** One of the major objectives of economic planning in India has been to achieve self-sufficiency in key areas such as food, energy, and defence. This can be achieved by promoting domestic production, reducing dependence on imports, and promoting indigenous research and development.
4. **Social justice and equity:** Economic planning in India also aims to promote social justice and equity by ensuring that the benefits of economic growth are distributed fairly across all sections of society.
5. **Regional Development:** Economic planning in India also aims to promote regional development by reducing regional imbalances and promoting the development of backward regions. This is done by providing infrastructure, incentives, and subsidies to promote industrialization and economic growth in these regions.
6. **Employment generation:** India has a very large and growing population, with major work force in the informal sector. Economic planning aims to create new employment opportunities, especially in the manufacturing and services sectors, and promote entrepreneurship and self-employment.
7. **Reducing regional disparities:** India is a vast country with regional disparities in terms of income, infrastructure, and access to basic services such as healthcare and education. Economic planning aims to reduce these disparities by allocating resources to underdeveloped regions and promoting balanced regional development.
8. **Balanced Regional Development:** Economic planning also aims to promote balanced regional development by ensuring that the benefits of development reach all parts of the country. This is achieved by investing in infrastructure, setting up industries in backward areas, and promoting entrepreneurship.
9. **Increased Standard of Living:** Economic planning in India aims to increase the standard of living of the people by promoting economic growth and providing access to basic amenities such as healthcare, education, and housing.
10. **Economic Stability**: Economic planning in India also aims at economic stability. This means keeping inflation low while also making sure that deflation in prices does not happen. If the wholesale price index rise very high or very low, structural defects in the economy are created and economic planning aims to avoid this.
11. **Social Welfare and Provision of Efficient Social Services**: The objectives of all the five year plans aims to increase labour welfare, social welfare for all sections of the society. Development of social services, like education, healthcare and emergency services have been part of planning in India.
12. **Sustainable Development**: Development of all economic sectors such as agriculture, industry, and services is one of the major objectives of economic planning.

3.6 FEATURES OF ECONOMIC PLANNING IN INDIA

The most important features of economic planning depend on the goals and objectives set for the plans. The major aim behind adopting the idea of economic planning in India was to foster economic growth. The following are the important features of economic planning in India:

- Economic planning focuses on the creation and development of modern infrastructure.
- It aims to contribute to the development of the education sector.
- Economic plans focus on primarily identifying the main objectives that need to be achieved depending on the concerned country.
- Allocation of resources is one of the main features of economic planning in India.
- Setting realistic targets is also one of the important features of economic planning.

3.7 NEED FOR ECONOMIC PLANNING IN INDIA

After independence, India became an independent country the country had to face many problems and question at that time. Because of the British rule, the Indian economy became handicapped. It was a real challenge for the leaders to make the economy stable and strong. Every plan had its own objectives and targets to be achieved. The Indian government formed Planning commission on 15th March 1950, with Former Prime Minister Jawaharlal Nehru as the Chairman. The Planning Commission used to directly report to the Prime Minister of India. However, in the recent past this Planning Commission got replaced by the NITI Aayog (National Institute for Transforming India Aayog), established by Prime Minister Narendra Modi on 1st January 2015.

The major aim economic planning in India was to formulate plans for the most effective and balanced utilization of resources and determine priorities. Since then, the Planning Commission framed the centralized and integrated national economic plans at an interval of every five years, thereby known as the Five Year Plans.

3.8 ACHIEVEMENTS OF PLANNING IN INDIA

The Economic Planning in India was successful in getting the following objectives-

- **Achievements in Economic Growth**: One of the major achievements of Economic Planning in India was to boost economic growth. It was successful in the increase in the productivity of the industrial and agricultural sectors which has increased the per capita income and the national income as well.
- **Creation of Infrastructure**: With time and proper planning, India was able to create better infrastructure, irrigation, and hydroelectric projects, better roads, and railway networks.
- **Development in Education**: With Economic Planning, there has been noted that a large number of children are enrolled in schools, colleges, and universities.
- **Development of Science and Technology**: The increase in technical skills and skilled manpower was seen as the result. Also, India is able to send technical experts to foreign countries.
- **Expansion of Foreign Trade**: Because of the increase in the level of industrialization, there is an increase in the export of manufacturing and engineering goods. Thus, ultimately, foreign trade has increased.

An overview of all Five Year Plans implemented in India:

Five year plans	Objectives	Achievements
First Five year Plan (1951- 1956)	Rapid agricultural development to achieve food self-sufficiency in the shortest possible time and control of inflation.	Targets and objectives more or less achieved. With an active role of the state in all economic sectors.
Second Five year Plan (1956-1961)	The Nehru-Mahalanobis model was adopted for 'Rapid industrialisation	It could not be implemented fully due to the shortage of foreign exchange. Targets had to be pruned.
Third Five year Plan (1961-1966)	Establishment of a self-reliant and self-generating economy'	Wars and droughts did not allow the economy to achieve the set target.
Plan Holidays – Annual Plans (1966-1969)	crisis in agriculture and serious food shortage	A new agricultural strategy was implemented. It involved the distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation measures.
Fourth Five year Plan (1969-1974)	It aim was to achieve growth with stability and progressive achievement of self-reliance Garibi Hatao	The targets were ambitious. So it failed. Achieved growth of 3.5 percent but this achievement was with good Inflation. The government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture
Fifth Five year Plan (1974-1979)	removal of poverty and attainment of self-reliance	High inflation was terminated by the then government. Indian national highway system was introduced for the first time.
Sixth Five year Plan (1980-1985)	To deal with the problem of poverty by creating conditions of an expanding economy	Most of the targets were achieved. Family planning was also expanded to control over population.
Seventh Five year Plan (1985-1990)	Emphasis on policies and programs that would accelerate the growth in food grains production, increase employment opportunities and raise productivity were aimed	With a growth rate of 6 percent, this plan was proved successful in spite of severe drought conditions for the first three years consecutively. This plan introduced programs like Jawahar Rozgar Yojana.
Annual Plans (1989-1991)	No plan due to political uncertainties	It was the beginning of privatization and liberalization in India
Eighth Five year Plan (1992-1997)	Rapid economic growth, high growth of agriculture and allied	Partly success. An average annual growth rate of 6.78% against the

	sector, and the manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. to undertake an annual average growth of 5.6%	target 5.6% was achieved.
Ninth Five year Plan (1997-2002)	It achieved a GDP growth rate of 5.4%, lower than the target. Yet, industrial growth was 4.5% which was higher than targeted 3%. The service industry had a growth rate of 7.8%. An average annual growth rate of 6.7% was reached.	Quality of life, generation of productive employment, regional balance and self-reliance. Growth with social justice and equality. growth target 6.5%
Tenth Five year Plan (2002 –2007)	To achieve 8% GDP growth rate. Reduce poverty by 5 points and increase the literacy rate in the country.	It was successful in reducing the poverty ratio by 5%, increasing forest cover to 25%, increasing literacy rates to 75 % and the economic growth of the country over 8%.
Eleventh Five year Plan (2007-2012)	Rapid and inclusive growth. Empowerment through education and skill development. Reduction of gender inequality. Environmental sustainability. To increase the growth rate in agriculture, industry, and services to 4%,10% and 9% resp. Provide clean drinking water for all by 2009.	India has recorded an average annual economic growth rate of 8%, farm sector grew at an average rate of 3.7% as against 4% targeted. The industry grew with an annual average growth of 7.2% against 10% targeted.
Twelfth Five year Plan (2012-2017)	Faster, sustainable and more inclusive growth". Raising agriculture output to 4 percent. Manufacturing sector growth to 10 %. The target of adding over 88,000 MW of power generation capacity.	Its growth rate target was 8%.

3.9 FAILURES OF PLANNING IN INDIA

Though Economic Planning in India has been able to fulfill certain objectives, it was not able to eradicate the following-

- **Failure to Remove Poverty and Inequality** completely: It is a big taboo but economic planning in India is still not able to get rid of these two issues.
- **Unemployment**: It has opened the doors for a few workers every year but a large number of workers in India are still searching for employment. According to the stats, the unemployment rate in India is 6.6%.

- **Failure to eradicate Corruption and stop black money**: Even after strategic planning, black money and corruption are still an area of concern.
- **Inflation**: It is unable to stop the inflation of goods even after 70 years.
- Failure in improving standard of living
- Slow growth in production sector
- Extra ambitious goals and targets for the plans
- Inefficient administration

3.10 NITI AYOG

The Government of India stopped the Five-Year Plans after the Twelfth Five-Year Plan (2012-2017) and replaced them with a new think tank body called the Niti Aayog, which focuses on sustainable development goals and long-term planning.

3.10.1 Role of NITI Aayog in Economic Planning

NITI Aayog, the National Institution for Transforming India, is a policy think tank of the Government of India established on 1 January 2015. It replaced the Planning Commission, which was formed after independence. It has mainly two objectives to achieve namely: sustainable development goals and enhancing cooperative feudalism with a bottom-to-top approach.

Its initiatives include,
(a) Action Plan – 3 Years
(b) Strategy Plan – 7 Years
(c) Vision Plan – 15

3.10.2 Nature of NITI Aayog

NITI Aayog aims for partnership of centre and Indian states. One of its main aims is to make states as part of planning process, giving weightage to their needs. It helps to evolve, promote and strengthen co-operative federalism believing that strong states make strong nation. It helps in preparing village level plans and later integrates them at higher levels of government. It ensures that all sections of society would benefit adequately from economic processes. It will create a knowledge, innovation and entrepreneurial support through collaborations. It gives reduced and redefined role to centralized planning. The role of government as a player in the industrial and service sector is to be reduced.

3.10.3 Major Objectives of NITI Aayog

The main objectives of NITI Aayog are:

1. To change the role of the government from provider of the first and last resort to an ‘enabler’.
2. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states.
3. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
4. To ensure that the interests of national security are incorporated in economic strategy and policy.
5. To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress.

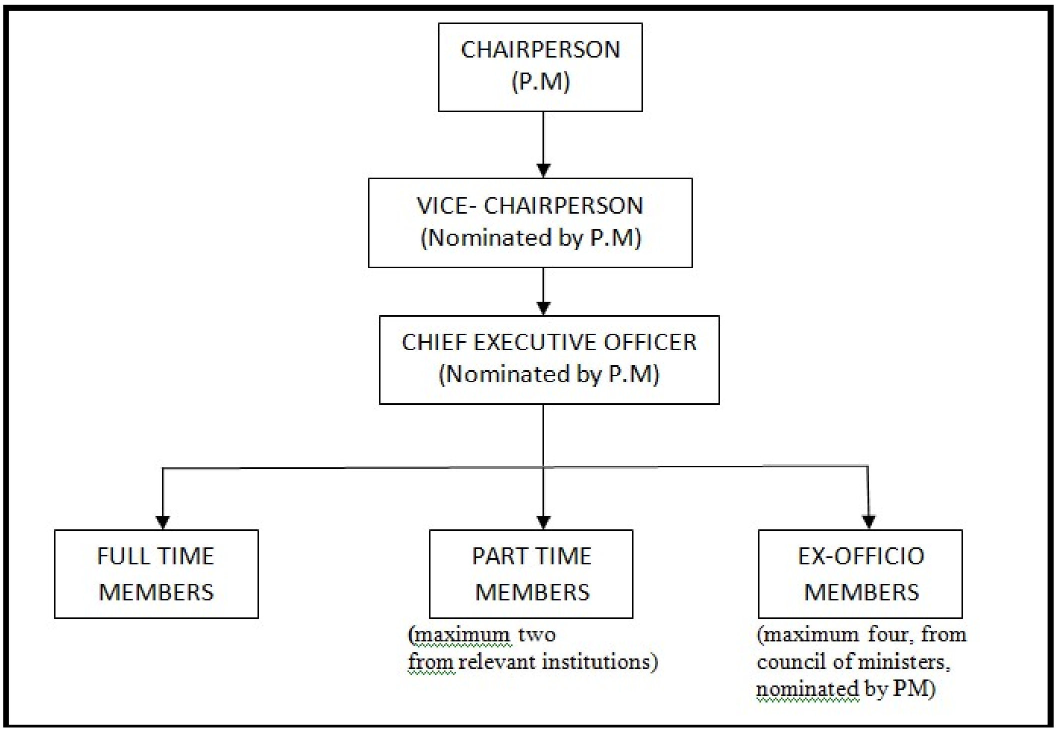
6. To provide advice and encourage partnerships between key stakeholders and national and international like- minded think tanks.
7. To monitor the implementation of the policies and programs and evaluates their impact.

3.10.4 Organisational Structure of NITI Aayog

The NITI Aayog comprises the following manner:

1. Chairperson: Prime Minister.
2. Vice-chairman to be appointed by the Prime Minister.
3. Regional councils Consists of Prime Minister, Chief Minister of the states and Lt. Governors of Union Territories.
4. Experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime Minister.
5. The full-time organizational framework will comprise of, in addition to the Prime Minister as the chairperson:
    a. Vice-chairperson to be appointed by the prime minister.
    b. Full-time members.
    c. Maximum of 2 part-time members from leading universities, research organizations and other relevant institutions in an Ex-Officio capacity.
    d. Maximum of 4 members of the Union Council of ministers to be nominated by the Prime Minister as Ex-Officio members. Chief executive officer to be appointed by the Prime Minister for a fixed tenure in the rank of Secretary to the Government of India.
    e. Secretariat as deemed necessary.

Organisational Structure of NITI Aayog



3.10.5 Functions of NITI Aayog

1. It will facilitate to transform India into cooperative and competitive federalism.
2. National agenda is provided to the prime minister for development along with priorities and strategies.
3. To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
4. To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy.
5. To provide advice and encourage partnerships between key stakeholders and national and international like – minded Think Tanks, as well as educational and policy research institutions.
6. To offer a platform for resolution of inter – sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
7. To focus on technology up gradation and capacity building for implementation of programs and initiatives.

Thus, the NITI Aayog is in the path to frame a proper development policy for the country and will also seek to put an end to slow and delayed implementation of policy, by fostering better inter-ministering co-ordination. Moreover one of the major tasks of the NITI Aayog is to actively monitor and evaluate implementation of programs.

3.11 SUMMARY

Economic planning in India refers to the process of creating a long-term vision and strategy for the country's economic development. Economic planning in India started in 1951. It started with the adoption of the First Five-Year Plan, which was designed to promote economic growth, reduce poverty and unemployment, and improve the standard of living of the people. Economic planning involves developing strategies and policies to achieve economic goals. This is done by setting objectives, prioritizing them, allocating resources, and implementing measures. Planning can be done at different levels, such as national, regional, or local. The major aim economic planning in India was to formulate plans for the most effective and balanced utilization of resources and determine priorities. Since then, the Planning Commission framed the centralized and integrated national economic plans at an interval of every five years, thereby known as the Five Year Plans. India had seen many ups and downs in the five year plan period. We have completed twelve plans and have seen many achievement and failures.

The Government of India stopped the Five-Year Plans after the Twelfth Five-Year Plan (2012-2017) and replaced them with a new think tank body called the Niti Aayog, which focuses on sustainable development goals and long-term planning.

3.12 KEY WORDS

- **Planning by Direction:** Planning by direction is a type of planning where the government controls and directs the allocation of resources and the production of goods and services.

- **Planning by Inducement**: Planning by inducement, on the other hand, is a type of planning that encourages private investment and entrepreneurship through incentives and market-oriented policies.
- **Rolling Plans:** These are flexible plans that are reviewed and revised annually to reflect changing economic conditions and priorities
- **Fixed Plans:** These plans have a fixed duration and are not subject to mid-term revisions.
- **Indicative Planning:** Indicative planning provides guidelines and targets for the private sector and market forces to follow.
- **Imperative Planning: I**mperative planning involves mandatory regulations and controls to achieve specific targets.

3.13 SELF ASSESSMENT QUESTIONS

Long answers

1. What are the achievement and failures of Indian economic planning?
2. Explain the various economic plans.
3. What is NITI Aayog. Explain in detail.

Short answers

1. Write a note of Indian economic planning
2. What are the various types of planning.
3. Write a note on NITI Aayog.

3.14 SUGGESTED READINGS

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LESSON – 4

HUMAN DEVELOPMENT INDEX

Aims and Objectives:

- To understand the concept of Human Development Index (HDI).
- To understand the indicators, importance and components of HDI.
- To know India's rank in the global HDI.
- To understand how India has progressed in the past years in its HDI.

Structure

4.1 Introduction
4.2 Human Development Index
4.3 Importance of Human Development Index
4.4 Categories of Human Development
4.5 India's ranking in HDI
4.6 Reasons for India's under performance on HDI
4.7 Criticism of HDI
4.8 Human Development Report – India's future prospects
4.9 Summary
4.10 Key words
4.11 Self-Assessment Questions
4.12 Suggested Readings

4.1 INTRODUCTION

The Human Development Index (HDI) is a statistical tool used to measure a country's overall achievement in its social and economic dimensions. The social and economic dimensions of a country are based some indicators like - the health of people, their level of education and standard of living.HDI can be defined as the summary measure of human development.HDI is one of the best tools to keep track of the level of development of a country, as it combines all major social and economic indicators that are responsible for economic development.

The Human Development Index is a blend of numerous statistical factors such as life expectancy, education, and per capita income that is employed to stratify nations into four segments of human development. The HDI makes use of the average annual income and educational expectations to rank and take a comparison with other countries to measure the level of development of individuals in all the countries.

Every year United Nations Development programme (UNDP) ranks countries based on the HDI report released in their annual report. Pakistani economist Mahbub ul Haq created HDI in 1990 in these annual reports, which was further used to measure the country's development by the UNDP. Calculation of the index combines four major indicators: life expectancy for health, expected years of schooling, mean of years of schooling for education and Gross National Income per capita for standard of living.

Measuring the potential of individuals and human development facilitates a supplementary metric for measuring a country's status of development. The HDI is a summary composite measure of a country's average achievements in three basic aspects of human development namely - health, knowledge and standard of living. It is a measure of a country's average achievements in three dimensions of human development in:

- a long and healthy life, as measured by life expectancy at birth,
- knowledge, as measured by mean years of schooling and expected years of schooling; and
- a decent standard of living, as measured by GNI per capita.

The HDI sets a minimum and a maximum for each dimension, called "goalposts", then shows where each country stands in relation to these goalposts. This is expressed as a value between 0 and 1. The higher a country's human development, the higher will be its HDI value.

4.2 HUMAN DEVELOPMENT INDEX

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. As mentioned above, HDI is a statistical measure developed by Mahbub Ul Haq, a Pakistani economist. It was later adopted by the United Nations Development Programme (UNDP) for measuring the development of countries.HDI measures development of a country based on certain parameters such as life expectancy, literacy rate or the level of education obtained and per capita income.

HDI is a statistically formulated and collaborated to compute numerous countries' social and economic development levels in the United Nations. The HDI was established to focus on and emphasize that individuals and their potential ought to be the final criteria for measuring the development of a country, not economic growth alone. As a segment of the Human Development Index, each year United Development Programme presents the Human Development Report (HDR)**.**

The HDR was initiated for the first time in 1990 and since then it has been presented every year except in 2012. In accordance with the last Human Development Report, India ranked at 132nd position, having a score of 0.633. The Human Development Report (HDR) is imprinted by the United Nations Development Programme (UNDP). The main emphasis laid by UNDP is on the approach that leads to human development. The foremost objectives behind publishing the Human Development Report are:

- Progress and enhancing human development.
- Augmentation of chances, and choices, and facilitating liberty to people throughout the world.
- Institution to the creative ideas pertaining to human development.
- Upholding the practical amendments in the policy.
- Opposing the policies coming as an obstacle to human development.

The first Human Development Report was printed in 1990 by the Pakistani economist Mahbub ul Haq and the distinguished laureate of India, Amartya Sen. The Human Development Report covers 13 dimensions:

1. Gender
2. Health
3. Human security
4. Mobility & Communication
5. Socio-economic sustainability
6. Trade and financial flows
7. Work, employment, and vulnerability
8. Income
9. Inequality
10. Humans' Development
11. Demography
12. Education
13. Environment Sustainability

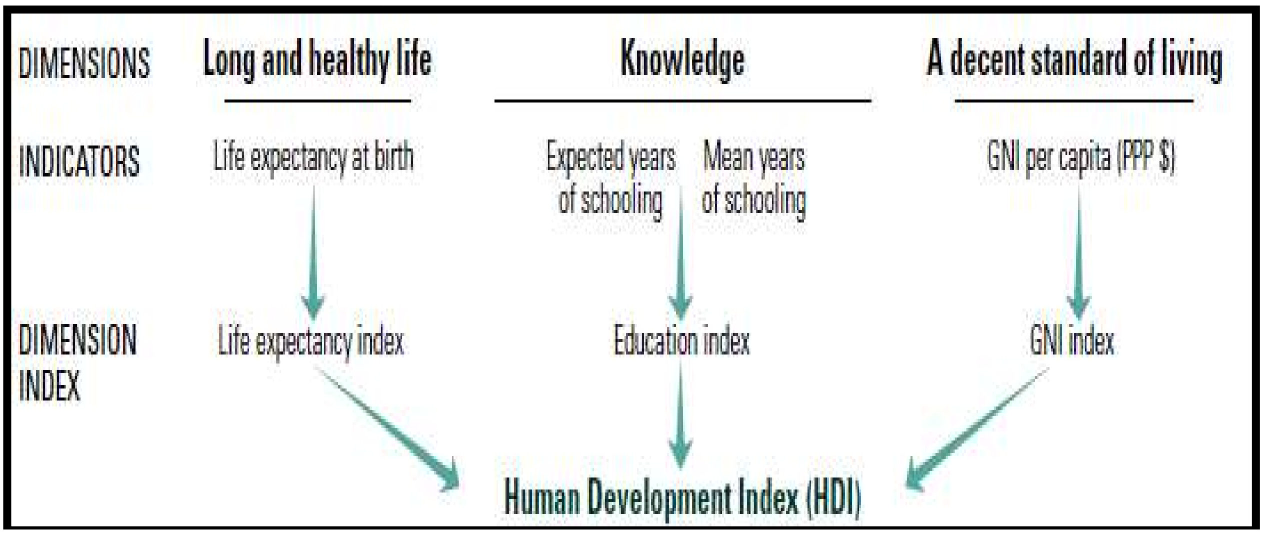
The United Nations Development Programme (UNDP) annually releases the HDR with 5 composite indices, which are:

1. Human Development Index
2. Inequality-adjusted Human Development Index (considers 'Inequality' as the fourth pillar)
3. Gender Development Index
4. Gender Inequality Index
5. Multidimensional Poverty Index

UNDP releases a yearly report by assessing the countries of the world on the parameters mentioned above. It is regarded as one of the best indicators of the development of a nation as it consists of all the important indicators necessary to determine economic development. The human development index measures the average achievement of a country in three major aspects of human development. They are: a long and healthy life, education and a decent standard of living. HDI is calculated using the following four indicators:

1. Life expectancy at the time of birth.
2. Mean years of schooling.
3. Expected years of schooling
4. The Gross National Income per capita.

These indicators can be expressed diagrammatically as:



1. **Health**: The health dimension is evaluated by life expectancy at the time of birth. The life expectancy at birth is a statistical measure of how long an average person is expected to live based on demographic factors such as birth year and current age.It is the age by which a particular person belonging to a particular age is expected to live.Life expectancy at birth in India for Males is 67.34 years, and for females69.64 years. In the health aspect in fact mortality rate and maternal mortality rate also count a lot to know the HDI of the country.

Infant mortality rate in India:

- It is the total number of infants dying below the age of 1 year out of 1000 babies.
- The infant mortality rate for India in 2021 was 28.771 deaths per 1000 live births, a 3.61% decline from 2020.
- The infant mortality rate for India in 2020 was 29.848 deaths per 1000 live births, a 3.48% decline from 2019.

Maternal mortality rate in India:

- It is the total number of dying mothers out of 1000 mothers while giving birth to babies.
- According to the 2011–13 census, maternal mortality rate in India is 167 deaths.
- The policy notes for the health department in 2023-24 said: "The MMR is 52 per one lakh live births as per SRS 2020 compared to 97 for India in 2020 (SRS 2018-20)".

2. **Education**: The education dimension is measured by mean of years of schooling for adults aged 25 years and more. Further expected years of schooling for children of school entering age are also taken into consideration. The expected years of schooling and the mean years of schooling are the education indicators. According to the United Nations, the average maximum number of years of schooling is 18 years, while the mean maximum number of years of schooling is 15 years.

   The literacy rate among women in India as on December, 2023 has surged to 77 per cent, whereas the male literacy rate stands at 84.7 per cent. Bihar holds the lowest literacy rate in the country, with Arunachal Pradesh and Rajasthan following closely, as stated by the Ministry of Education.According to research records of 2023, Kerala boasts the highest literacy rate at 96.2%, while Andhra Pradesh reports the lowest at 66.4%. Notably, the national male-female literacy gap stands at 12.9%. Kerala also demonstrates the smallest gender gap at 2.2%, while Rajasthan exhibits the highest at 23.3%.

3. **Living Standards**: The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The standard of living can also be analyses with the help of Percentage of the population below poverty line.

- People below the poverty line are categorized according to calories consumed by each person per day, which is 2400 in rural areas and 2100 in urban areas.
- Any person consuming calories less than the minimum limit mentioned above is said to be below the poverty line.
- As per ranking in quality-of-life index, India stands in 56th place (2023) with quality-of-life index 116.1

The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. The HDI can be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. The HDI simplifies and explains only part of what human development involves. It does not reflect on inequalities, poverty, human security, empowerment, etc.

4.3 IMPORTANCE OF HUMAN DEVELOPMENT INDEX

Importance of HDI is listed below:

1. **Human-Centric Approach:** By focusing on life expectancy and education alongside income, the HDI emphasizes on the well-being and capabilities of people. It replicates the fact that development is ultimately about improving the lives of individuals. By analyzing HDI of the country one can understand the totally development of individuals in a country.
2. **Comprehensive Measurement:** The HDI takes into account various dimensions of development, like life expectancy, education, and per capita income. This provides a more holistic understanding of a country's development than purely economic indicators like GDP. Therefore, it gives a more inclusive picture of the entire economy in total.
3. **Global Comparisons:** The HDI enables for easy comparisons between countries, enabling policymakers and researchers to assess where a country stands in terms of human development relative to others. This helps identify best practices and areas for improvement. It also gives scope for further development and study in different angles, which can help for better development of human race.
4. **Policy Guidance:** Governments and organizations can use the HDI to identify areas that need attention and allocate resources to improve overall human well-being. It guides policy decisions by highlighting gaps in education, healthcare, and income. By this there is more chances for overall development of the country.
5. **Accountability:** The HDI holds governments accountable for the well-being of their citizens. It provides a basis for international discussions on development goals and progress.

It is necessary to determine social measures of development for calculating the overall development of a nation. Human Development Index measures the socio-economic factors and therefore, is considered very effective in measuring the performance of a country in terms of these factors.HDI acts as a tool in evaluating the socio-economic status of nations around the world every year and as such acts as a reliable indicator of the development of the nations.

Both social and economic dimensions of a country consider the health of the people, their education capabilities, their standard of living, and Gross National Income (GNI) per capita. Human Development Index is calculated through the normal indices of each of the above three factors. Human Development Index is the mean of these indices. HDI is also used to question a country’s national policy and compare the countries with similar GNI per capita to question why the human development of these countries are different despite having similar Gross National Income (GNI) per capita.

The importance of the human development index is that it is an essential indicator of the overall socio-economic conditions of a nation and its residents. Since it takes into account various parameters to determine the development of those areas, it is an effective way to evaluate the performance of every nation.

Consequently, after the survey, every country is awarded a rank by the United Nations Development Programme annually. A higher rank is allocated to the one that has performed well in all or most of the parameters. Likewise, nations that have not fared well in all or most of the parameters attain a lower rank. As a result, HDI acts as a measuring tool that helps in gauging socio-economic conditions of nations every year and also keeps track of the same

4.4 CATEGORIES OF HUMAN DEVELOPMENT

Human development is defined as the process of expansion of human capabilities, a widening of choices, a fulfillment of human rights, an enhancement of freedom and opportunities and improving their well-being. According to the United Nations, there are three essential choices for people which are: leading a long and healthy life; acquiring knowledge; and having access to the resources needed for a decent standard of living.

Countries fall into four broad human development categories based on HDI index: Low human development, Medium human development, High Human Development and Very High Human Development.

HDI is calculated by taking the geometric mean of the three indices as shown below:
The resulting value is a number that lies between 0 and 1. While the math might not be a piece of cake for everyone, it is important to realise the true essence of HDI and how it radically transformed the landscape of policy formulation. Classification of countries by virtue of their HDI value is in a sense a true indication of their socio-economic status.

Category	HDI Value
Very High Human Development	≥0.8
High Human Development	0.7-0.79
Medium Human Development	0.55-0.69
Low Human Development	≤0.54

According to the 2020 HDR, Norway tops the list with an HDI of 0.957 while India ranks 131 out of the 189 countries that have been analysed. In comparison to the 2019 report, India dropped two ranks with a slight change in HDI from 0.647 to 0.645. This has been attributed to relatively lower gross national income in 2020. Although, in collation with data over the years India's HDI has increased steadily with an average annual growth of 1.46% from 1990 to 2018. This holds for most medium human development countries.

4.5 INDIA'S RANKING IN HDI

As mentioned before HDI measures the level and changes in quality of life along with some more indicators like life expectancy, education or access to knowledge and income or standard of living of people in the country. HDI was created in a way as a complement to the gross domestic product because it emphasizes the importance of human development in the development process of the country. The higher the country's score in HDI, the higher the people's life span, the literacy rate in the country and also the gross nation income per capita of the country and vice versa.

Human Development Report 2020: Out of 191 countries, India has ranked 132 on the Human Development Index 2021-22 prepared by the United Nations Development Programme (UNDP).India maintains records of HDI development for every year. In the recent past India's HDI value is 0.633. It has cited the country in the medium human development category which is lower than its value of 0.645 in 2020 records. The reports analyse the main reason for this decrease in the value of HDI from 0.645 in 2019 to 0.633 in 2021 in India's falling life expectancy from 69.7 years to 69.2 years during the survey period.

This score is a remarkable improvement compared to the South Asian region's average value of 0.508 and is close to the world average of 0.465 and India ranks 132 out of 191 countries. Human Development Index Rank report is given below for the top 10 countries of the world:

Sl. No.	Country	HDI
1	Switzerland	.962
2	Norway	.961
3	Iceland	.959
4	Hong Kong (China)	.952
5	Australia	.951
6	Denmark	.948
7	Sweden	.947
8	Ireland	.945
9	Germany	.942
10	Netherlands	.941

Among the neighbours of India, Sri Lanka is in 73rd position; China in 79th position, Bangladesh is place in 129th position, Bhutan 127th position. All these countries ranked above India. But Pakistan stands in 161st position which is below India. Next to Pakistan out neighbour Nepal and Myanmar stand in 143rd and 149th position. The report depicts that around 90 per cent of the courtiers registered a decline in their HDI values in 2020 or in 2021. This might be due to the pandemic (COVID) which all the countries of the world have faced during that period.

Human Development Index: Top and Important countries in the list 2021

HDI rank	Country	HDI Value 2021
1	Switzerland	0.962
2	Norway	0.961
3	Iceland	0.959
4	Hong Kong, China	0.952
5	Australia	0.951
6	Denmark	0.948
7	Sweden	0.947
8	Ireland	0.945
9	Germany	0.942
10	Netherlands	0.941
18	United Kingdom	0.929
19	Japan	0.925
21	United States	0.921
79	China	0.768
132	**India**	**0.633**

Some of the main highlights regarding HDI indicators about Indian economy are:

- India's expected years of schooling stand at 11.9 years, down from 12.2 years in the 2020 report, although the mean years of schooling is up at 6.7 years from 6.5 years in the 2020 report.
- Although India retained its 132nd position in the Gender Development Index, the female life expectancy has dropped from 71 years in the 2020 report to 68.8 years in the 2021 report.
- The mean years of schooling for females declined from 12.6 to 11.9 years in the corresponding period.
- India appears to have done a fantastic job of multiplying its GDP many times over, but development on the HDI front has been disappointing.
- India's HDI score has risen at an annual average rate of 1.42 percent over the last three decades, according to HDI data.
- The mean years of schooling for females declined from 12.6 to 11.9 years in the corresponding period.

- India scored 0.123 in the Multi-Dimensional Poverty Index (MPI) with a headcount ratio of 27.9 per cent, with 8.8 per cent population reeling under severe multidimensional poverty. Over the last decade, India has lifted a staggering 271 million out of multidimensional poverty, the report noted.
- As a result, if India is to achieve its goal of becoming a superpower, it must invest to alleviate the weight of social and economic disadvantage on the poor.
- India's gross national income per capita has more than doubled since 2005, according to the UNDP's HDR Report 2019, and the number of "multidimensionality poor" individuals has decreased by more than 271 million since 2005-06.
- Inequalities in "basic areas" of human development have also decreased.
- In terms of educational attainment, historically marginalized groups, for example, are catching up to the rest of the population.

If an overall view is taken to understand the HDI of India we can make a note that:

- ✓ India appears to have done a fantastic job in increasing its gross domestic product many times, but development in the HDI was not up to the mark.
- ✓ India’s HDI score no doubt has risen at an annual average rate of 1042 percent over the last three decades according to HDI data, but we still rank very high globally.
- ✓ In order to achieve HDI higher goals, India has to develop all the dimensions of HDI.
- ✓ In order to achieve the goal of becoming a super power, India has to invest to alleviate the weight of social and economic disadvantage on the poor.
- ✓ India has to reduce the level of poverty and inequality in the country and improve the standards of living of people along with the level of literacy.
- ✓ Thought in records the numbers are very encouraging but when analysed the economy needs to improve more to be in the top position in all aspects of HDI indicators.

4.6 REASONS FOR INDIA’S UNDERPERFORMANCE ON HDI

India is ranked 132nd in the 2021-22 HDI**.** Deep-rooted societal and economic disadvantages account for a poor ranking for the economy that is in the world's top six in terms of size. The following causes can be attributed to India's poor HDI performance:

1. **Increasing Income Inequalities:** Income disparities amplify failures on other HDI human development indices. In countries with substantial income disparity, intergenerational income mobility is lower. Oxfam India’s report on inequality in India in December 2023 finds that just 5 per cent of Indians own more than 60 per cent of the country’s wealth, while the bottom 50 per cent of the population possess only 3 per cent of the wealth.The report, “Survival of the Richest: The India story”, also says that between 2012 and 2021, 40 per cent of the wealth created in India has gone to just 1 per cent of the population and only a mere 3 per cent of the wealth has gone to the bottom 50 per cent, adding that the total number of billionaires in India increased from 102 in 2020 to 166 billionaires in 2022. As per this report -The combined wealth of India’s 100 richest has touched $660 billion (Rs 54.12 lakh crore) — an amount that could fund the entire Union Budget for more than 18 months.The wealth of the top 10 richest in India stands at Rs 27.52 lakh crore ($335.7 billion, an

increase of around $110 billion which is 32.8 per cent rise from 2021). Therefore, there a wide gap in income inequalities in the country.

2. **Gender Inequality:** According to statistics, female per capita income in India is just 21.8 percent of that of males, although it is more than twice in other emerging countries, at 49 percent. India has been placed in eight places in the annual Gender Gap Report, 2023, and is ranked 127 out of 146 countries in terms of gender parity, from 135 last year. But this improved statistic, closing 64.3% of the overall gender gap, is not up to the mark. On the four key markers of the index – economic participation and opportunity, educational attainment, health and survival and political empowerment – India has a window of opportunity to improve in each so that one half of the most populous country in the world may contribute to the economy, growth and overall wellbeing of society. India has fared well in education, and in political empowerment, with representation of women of over 40% in local governance because of the latest decisions taken by the government. On providing even access for men and women on economic participation and opportunity, India ranks near the bottom with less than 40% parity, which is one of the reasons for low HDI in the country.

   The Global Gender Gap score in 2023 for all 146 countries included in this edition stands at 68.4% closed. Considering the constant sample of 145 countries covered in the 2022 and 2023 editions, the overall score changed from 68.1% to 68.4%, an improvement of 0.3 percentage points compared to last year's edition. When considering the 102 countries covered continuously from 2006 to 2023, the gap is 68.6% closed.

3. **Cumulative Impact**: These elements have a long-term impact that spans generations. This intergenerational loop deprives people at the bottom of the pyramid of opportunity.

4.7 CRITICISMS OF HUMAN DEVELOPMENT INDEX

- **Simplification:** The HDI combines diverse indicators into a single index, potentially oversimplifying complex realities and interactions among dimensions of development.
- **Limited Indicators:** While the HDI captures important aspects of development, it does not consider factors like inequality, environmental sustainability, and political freedoms, which are also crucial for overall well-being.
- **Weights and Aggregation:** The method used to combine different indicators and assign weights can be debated. Some argue that the weights assigned to each dimension may not accurately reflect their relative importance.
- **Data Quality:** HDI calculations depend on the availability and accuracy of data, which may vary across countries and regions. Inaccurate or outdated data can distort the assessment of human development.
- **Urban-Rural Disparities:** The HDI can mask disparities between urban and rural areas within a country. National averages may not reflect the different challenges faced by different segments of the population.

- **Subjective Factors:** The HDI's indicators are objective, but the index does not consider people's subjective well-being, personal satisfaction, or happiness.
- **Development and Sustainability:** The HDI does not account for the environmental impact of development or a country's sustainable practices.

Limitations of the HDI:

1. Having one 'average' HDI measure for a single country fails to take into account the diversity of development within a country.
2. This can also be applied to the extent of inequality and poverty in a country.
3. The GNI index can be misleading because activities which add to GNI can reduce economic welfare, such as more use of vehicles which adds to GNI but creates negative externalities, or road building which adds to GDI but might also lead to negative externalities in the future.
4. Changes in policy can take a long time to influence the HDI, which creates a disincentive for politicians to make changes.
5. As many economists have argued, the HDI does not include some features of economic and social life that may add to development, such as the sustainability of using resources, and the subjective assessment of 'happiness and wellbeing'.
6. Data gathered from some less developed economies may be unreliable.
7. The three components of GNI per capita, life expectancy and education are equally weighted in the index, which are an arbitrary allocation of weights.

4.8 HUMAN DEVELOPMENT REPORT – INDIA'S FUTURE PROSPECTS

The Human Development Report by UNDP emphasizes that people and their abilities should be the main factors in the evaluation of the growth of a nation based on three basic parameters of development in Human Beings- long and healthy lives, the ability to access information, and an acceptable standard of life.

- India could climb eight spots in the rankings.
- Under the Paris Agreement, India has pledged to cut down the emissions intensity of its GDP from its 2005 levels of 33-35% before 2030 and to get 40% of electricity production from non-fossil fuel sources by 2030.
- Solar power in India has increased from 2.6 gigawatts in March 2014 to 30 gigawatts as of July 2019, surpassing its goal of 20 gigawatts just four years ahead of schedule.
- In the year 2019, India came in fifth place for the capacity of solar panels installed.
- The National Solar Mission seeks to increase the use of solar energy for power generation and other uses to make solar energy compared with fossil fuel-based alternatives.

Human development is on the rise and there is an increase in the number of girls and women pursuing higher education, there are more economically empowered women now, and poverty is being reduced gradually.

4.9 SUMMARY

The Human Development Index is a valuable tool for assessing and comparing human development across countries, and it has played a significant role in shaping development policies and discussions. However, it is essential to recognize its limitations and consider other measures and indicators to ensure a more comprehensive understanding of development.

The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities. The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. Central to the human development approach is the concept of capabilities. Capabilities—what people can do and what they can become-are the equipment one has to pursue a life of value. Basic capabilities valued by virtually everyone include: good health, access to knowledge, and a decent material standard of living. Other capabilities central to a fulfilling life could include the ability to participate in the decisions that affect one's life, to have control over one's living environment, to enjoy freedom from violence, to have societal respect, and to relax and have fun.

4.10KEY WORDS

1. **The Human Development Index (HDI)**: It is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

2. **Indicators of HDI:**
   Life expectancy at the time of birth.
   Mean years of schooling.
   Expected years of schooling
   The Gross National Income per capita.

3. **Human-Centric Approach:** By focusing on life expectancy and education alongside income, the HDI emphasizes on the well-being and capabilities of people. It replicates the fact that development is ultimately about improving the lives of individuals. By analyzing HDI of the country one can understand the totally development of individuals in a country.

4. **Comprehensive Measurement:** The HDI takes into account various dimensions of development, like life expectancy, education, and per capita income. This provides a more holistic understanding of a country's development than purely economic indicators like GDP. Therefore, it gives a more inclusive picture of the entire economy in total.

4.11 SELF ASSESSMENT QUESTIONS

Long answers

1. Explain the importance of Human Development index.
2. What are the reasons for India's under performance on HDI?
3. Explain India's ranking in HDI.
4. Explain the main indicators of HDI in context to Indian economy.

Short answers

1. Explain what is Human Development Index.
2. What are the categories of Human development?
3. What are the indicators of HDI?

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LESSON - 5
TRENDS IN NATIONAL INCOME AND DEMOGRAPHY IN INDIA

Aims and Objectives

After completing the lesson the student is able to

- ✓ What is National income
- ✓ Understand the different Trends in National Income
- ✓ Analyze the Stages of Demographic Transition

Structure

5.1 Introduction
5.2 Trends in National Income in India
5.3 Sectoral contribution of National Income
5.4 Demographic trends
5.5 Demographic features of Indian Population
5.6 Population Policy in India, 2000
5.7 Summary
5.8 Key words
5.9 Self Assessment Questions
5.10 Suggestive Readings

5.1 INTRODUCTION

National income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. In the common parlance, National income means money value of all the final goods and services produced by a country during a period of one year. In other words, the total amount of income accruing to a country from economic activities in a year's time is known as national income. It includes payments made to all resources in the form of wages, interest, rent and profits.

5.2 TRENDS IN NATIONAL INCOME IN INDIA

A study, of the trend of the national income in India over the last 60 years, in detail, is very much essential for attaining a clear understanding about the impact of planning on the Indian economy. Both the national income and per capita income are first collected at current prices and then at constant prices for eliminating the effect of any change of price level during that period. This trend in national income also reflects on the standard of living of the people of India. Thus the national income at current prices is influenced by both the increase in production of goods and services and the rise in prices. In order to make the national income figures comparable, these figures are deflated at constant prices just for eliminating the effect of any change in the price level of the country.

Let us now look into the trends in the national income figures and per capita income figures of India both at current prices and at constant prices obtained through CSO's new series with 2004-05 as base year. The whole time-series data is given in Table 5.2.1 below.

Table5.2.1: Net National Product and Per-Capita Income

TABLE 5.2.1New revised 2004-05 based NNP and per capita NNP at Factor Cost				
Year	At 2004-05Prices		At current prices	
	Net National product at Factor Cost (Rs. Crore)	Per capita NNP (Rs.)	Net National product at Factor Cost (Rs. Crore)	Per capita NNP (Rs.)
1950-51	255,405	7,114	9,464	264
1970-71	541,867	10,016	41,294	763
1990-91	1,202,305	14,330	471,618	5,621
2000-01	2,074,858	20,362	1,762,358	17,295
2004-05	2,629,198	24,143	2,629,198	24,143
2005-06	2,878,410	26,025	2,999,792	27,123
2006-07	3,150,94	28,083	3,500,396	31,198
2007-08	3,451,829	30,354	4,076,878	35,825
2008-09	3,664,388	31,754	4,705,447	40,775
2009-10	3,966,408	33,901	5,411,104	46,249
2010-11	4,293,585	36,202	6,406,834	54,021
2011-12	4,573,328	38,048	7,434,965	61,855
2012-13	4,728,776	38,856	8,255,978	67,839
2013-14	4,920,183	39,904	9,171,045	74,380
2014-15	9,224,343	72,805	10,978,238	86,647
2015-16	9,963,681	77,659	12,162,398	94,797
2016-17	10,782,092	83,003	13,623,936	1,04,880
2017-18	11,508,774	87,586	15,140,418	1,15,224
2018-19(3rd RE)	12,226,019	92,133	16,713,054	1,25,946
2019-20 (2nd RE)	12,641,633	94,270	17,716,597	1,32,115
2020-21(1st RE)	11,536,004	85,110	17,194,158	1,26,855
2021-22(PE)	12,519,976	91,481	20,529,727	1,50,007
2022-23 (1st AE)	13,347,932	96,522	23,594,934	1,70,620

Table reveals the estimates of new 2004-05 based net national product (NNP) series of last 64 years since 1950-51 both at 2004-05 prices and at current prices. It is observed that NNP of India at 2004- 05 prices increased from Rs 255,405 crore in 1950-51 to Rs 2,629,198 crore in 2004-05 and then to Rs 4,920,183 crore in 2013-14 (P) registering a growth rate of 1926 per cent during the last 64 years. Again the national income (NNP) of India at current prices increased from Rs 9,464 crore in 1950-51 to Rs 2,629,198 crore in 2004-05 and then to Rs 9,171,045 crore in 2013-14 (P) registering a growth of nearly 969 times during the last 64 years.

Again the per capita income figure at constant (2004-05) prices increased from 7,114 in 1950-51 to Rs 24,143 in 2004-05 and then to Rs 39,904 in 2013-14 (P) registering a growth rate of 560 per cent during the last 64 years. Moreover, the per capita income at current prices also increased from Rs 264 in 1950- 51 to Rs 24,143 in 2004-05 and then to Rs 74,380 in 2013-14 registering growth of 281 times during the last 64 years.

CSO's revised 2011-12 Based NNP Series:

The Central Statistical Organization (CSO) has released the new 2011-12 based NNP series. Let us now look into the trends of national income figures and per capita income figures of India both at current and constant prices obtained through CSO's new series with 2011-12 as base year. This new estimate is prepared as Net National Income at market prices instead of Net National Income at factor cost. Table also reveals the estimates of new 2011-12 based net national product (NNP) series of last 4 years since 2011 -12 both at 2011-12 prices and at current prices. It is observed that NNP of India at 2011-12 prices increased from Rs 7,846,531 crore in 2011-12 to Rs 8,751,834 crore in 2013-14 and then to Rs 9,400,266 crore in 2014-15 (A) registering a growth rate of 19.8 per cent over thelast 4 years.

TABLE 5.2.1(b) New Revised 2011-12 baserd NNP and per capita NNP

Year	At 2011-12 Prices		At Current Prices	
	Net National Product at market prices(Rs. crore	Per Capita NNP at market prices(Rs.)	Net National Product at market prices (Rs.crore)	Per Capita NNP at market prices(Rs.)
2011-12	7,846,531	64,316	7,846,531	64,316
2012-13	8,193,427	66,344	8,841,733	71,593
2013-14	8,751,834	69,959	10,056,523	80,388
2014-15	9,400,266	74,193	11,217,079	88,533
2015-16	9,946,287	88,523	12,162,398	94,797
2016-17	10,666,303	93,653	13,623,936	1,04,880
2017-18	16,438,895	1,24,916	15,140,418	1,15,224
2019-20	19,592,890	1,30,821	16,713,054	1,25,946
2020-21	1,16,63,958	1,46,301	17,716,597	1,32,115
2021-22	1,26,70,834	1,71,498	17,194,158	1,26,855
20223-23	1,35.68,694	1,96,716	20,529,727	1,50,007

Again the national income (NNP) of India at current prices increased from Rs 7,846,531 crore in 2011-12 to Rs 10,056,523 crore in 2013-14 and then to Rs 11,217,079 crore in 2014-15(A) registering growth of 42.9 per cent during the last 4 years. Again, the per capita income figure at constant (2011-12) prices increased from Rs 64,316 in 2011-12 to Rs 69,959 in 2013-14 and then to Rs 74,193 in 2014-15(A) registering a growth rate of 15.3 per cent during the last 4 years. Moreover, the per capita income at current prices also increased from Rs 64,316 in 2011-12 to Rs 80,388 in 2013-14 and then to Rs 88,533 in 2014-15(A) registering a growth of 37.6 per cent during the same period.

5.3 SECTORIAL CONTRIBUTION OF NATIONAL INCOME:

A very important aspect of the national income of a country is its sectoral composition, le the contribution made to it by the different sectors of the economy. The development of the econom mainly depends upon sectoral contribution. If the contribution from agricultural sector is high, genemi a country is said to be under- developed one

Table 5.3 :Share of Gross domestic Product by Industry of Origin

Industry		Percentage Distribution		
	1950-51	1980-81	2013-14	2022-23
I.Agriculture & Allied Services	55.4	38.0	13.9	18.3
II.Industry	15.0	24.0	26.2	25.92
(a) Mining & Quarrying	1.4	2.0	1.9	1.63
(b) Manufacturing	8.9	13.8	14.9	14.43
(c) Elecriticity, gas &water Supply	0.3	1.6	1.9	2.7
(d) Construction	4.4	6.6	7.4	7.16
III.Services	29.6	38.0	59.9	53.89
(e) TradeTrasnport&Communications	11.3	17.4	26.4	16.42
(f) Finance,Insurance&RealEstate	7.7	7.5	20.6	22.05
(g) Community, Social and personal Services	10.6	13.1	12.9	15.42
Total	**100**	**100**	**100**	**100**

5.3.1 Contribution of the Primary sector to GDP (Gross Domestic Product)

During the post- Independence period, the share of the primary sector (Agriculture, Forestry and fishing) in the Gross Domestic product has varied from the maximum of 55.4 percent in 51 to the minimum of 18.3 percent in 2022-23. The main cause of the decline is a rapid fall in the share of agriculture alone. There is a decline in the share of forestry to GDP. The share of fishery has remained more or less constant. In recent years, the country's economy has undergone some structural changes. Transport and trade, banking and insurance and other service sectors have grown faster than agriculture. Still, the agricultural sector remains an important sector in the Indian economy in terms of its share in the country's Gross Domestic Product.

5.3.2 Contribution of the Secondary Sector to GDP

The share of industry which includes mining, quarrying, manufacturing, construction and electricity, gas and water supply has shown a steady increase from 15 per cent in 1950-51 to 26.2 in 2013-14. Its share in 1980-81 was 24 per cent. From 1980-81, there was a slight improvement in the share of industrial sector to gross domestic product. Two major components of industry are manufacturing and construction. The share of manufacturing increased from 8.9 per cent in 1950-51 to 14.9 per cent in 2013-14. Similarly, the share of construction increased from 4.4 per cent in 1950-51 to 7.4 per cent in 2013-14. However, the share of the organized industrial sector declined and was just 8.4 per cent in 2011-12. The share of manufacturing increased from 7.4 percent in 2013-14 to 7.6 percent in 2022-23.

5.3.3 Tertiary sector contribution to GDP

The share of the Tertiary sector (trade, transport, financing, insurance, real-estate, banking, social and personal services and business services) indicated a sharp improvement from 29.6 per cent in 1950-51 to about 59.9 per cent in 2013-14. There was a significant increase in share of trade, transport and communications from 11.3 per cent in 1950-51 to 20.6 per cent in 2013-14. The share of finance, insurance, real estate and business services marginally declined from 7.7 per cent in 1950-51 to 7.5 per cent in 1980-81 and thereafter improved to 20.6 per cent in 2013-14. There was a significant increase in share of trade, transport and communications from 2.0.6 per cent in 2013-14 to 22.04 per cent in 2022-23. This shows a good sign which is essential for an under-developed country like India.

The changes in Sectoral contribution reveal the following facts

1. Firstly, in India, agriculture still remains an important economic activity and any fluctuations; in it have serious repercussions on the whole of the economy. However, the importance of the agriculture appears to be slowly declining. In the early years of the 1970's, its share in the Gross Domestic Product used to be around 50 per cent. It has now come down to 18.3 percent in 2022-23
2. Secondly, not only the country has gradually moved towards industrialization, but the
3. Industrial sector also has undergone a structural change.
4. The rapid growth of transport, communications, energy, banking insurance in the secondary sector reflects the expansion of economic infra-structure in the country.

The theory of economic growth also supports the structural change in the composition of national Product. The distribution of Gross Domestic Product in developed countries indicates a much higher share of industry and services and a relatively a lower share from agriculture. The disparity in per capita incomes between developed and under-developed Countries is largely a reflection of the disparity in the structure of their economies

Indian economy is passing through the process of transition from an agricultural economy to an industrialized one. In the process, a structural change in the composition of national income is inevitable. This structural change is taking place, though at a slow pace. The main reason for the slow rate of structural change in domestic output is the slow rate of growth of the manufacturing.

5.4 DEMOGRAPHIC TRENDS

Demographic transition refers to a process of change in a population's birth and death rates and patterns over time, as a society moves from a high-fertility, high-mortality regime to a low-fertility, low-mortality regime. India is at stage three of the four stage model of demographic transition from stable population with high mortality and fertility to stable population with low mortality and fertility, with some of the states/UT's already into stage four.

Stages of Demographic Transition:

Stage 1:

Less developed countries, high birth rate, high death rate due to preventable causes, stable population. E.g. South Sudan, Chad, Mali etc.

Stage 2:

Death rates fall due to improved public health but high fertility due to limited access to health and contraceptive services, spurt in population. E.g. Afghanistan, Pakistan, Bolivia, sub-Saharan countries such as Niger, Uganda etc.

Stage 3:

Birth rate also falls, population continues to grow due to large no. of people in reproductive age group. E.g., Columbia, India, Jamaica, Botswana, Mexico, Kenya, South Africa, and the UAE.

Stage 4:

Stable population but at a level higher than the initial, low birth & death rates, high social & economic development. E.g. Argentina, Australia, Canada, China, Brazil, most of Europe, Singapore, South Korea, and the U.S

5.5 DEMOGRAPHIC FEATURES OF INDIAN POPULATION

World Population

The total population of the world was 1 billion in 1830 and it doubled by 1930. By 1960, Population of the world increased to 3 billion, total population of the world increased to 4 billion in 1975 and 5 billion in 1987. The last child of 5th billion was born on 11-07-1987in Yugoslavia. So, 11th July is known as World Population Day' According to UNFPA report world population touched to 6 billion on 12-10-1999 and UNO has declared 12th October as a Day of 6 billon'. The total population of the world stood at 780crore in March 2020.

5.5.1 Size and Growth Rate of Population in India

India possesses 2.4% of the total land area of the world, and with in population of billions in 2017 it has a share of 17.6% population. India is the second largest country in terms of population size e world after China. India accounts for only 7.3% of world GDP in 2017 (World Bank: Angus Madison data). These facts indicate that the pressure of population on the land in India is very high.

According to 1901 Census, India's population was 236 million and according to 2011 Census, the population was 1210 million and it was 13 billion in 2017. In a period of 116 years, the population of the country has increased by 1064 million. Table-5.1 (all tables are given in the Appendix) reveals the size and growth trends of India's population during 1891-2011. During the first phase of 30 years (1891 to 1921), India's population grew from 236 million in 1891 to 251 million in 1921 i.e., just by 15 million. The compound annual growth rate was 0.19% per annum for the period. Birth and death rates were more or less equal during this period. Hence, the growth of population was checked by the high death rate against the high birth rate. India was in the first stage of demographic transition in this period with stagnant population.

During the second phase from 1921 to 1951, India's population grew from 251 million in 1921 to 361 million in 1951 i.e., by 110 million. The compound annual growth rate of population was 1.22% which was considered as moderate. The main reason for this was a decline in death rate from 49 thousand population to 27 per thousand population and a very small decrease in birth rate from 49 per thousand population to 40 per thousand population. India had entered into the second phone of demographic transition during this period with a steady but low growth rate of population. The year 1921 is regarded as 'great dividing year of population because of decrease in population and a turning point for the increase in the growth rate of population.

During the third phase from 1951 to 1981, the population of India from 361 million in 1951 to 683 million in 1981. There was a record growth of population by 322 million in this 30 years. The compound annual grew growth rate of 2.14% is nearly double the growth rate of the previous phase. Due to the planning, many measures of death control were undertaken. This resulted in a further and sharp decline of death rate to a level of 15, but the birth rate fell very slowly from 40 to 37 during this period. So, there was a population explosion during this phase.

During 1981 to 2011, India's total population increased from 683 million 1210 million indicating an increase of 77% during the 30 year period. The annual average rate of growth of population during this period was 1.84% Thus, India entered the phase of high population growth with definite signs of slowing down. Though the country continues to remain in the second stage of demographic transition, this slowing of growth rate of population leads the country in to the third stage of demographic transition.

5.5.2 Birth, Death and Infant Mortality Rates

Growth rate of population is a function of birth rate, death rate and the level and direction of migration. In the Indian context, migration is not a significant factor and need not be considered. Variations in birth and death rates will provide an explanation of the population growth.

The growth of population was checked by the high birth and high death rates in India before 1921. Birth rate during 1901-1921 fluctuated between 46 and 49 per thousand population and the death rate between 44 and 49. So, the growth of population was little or negligible. After 1921, dear fall in death rate is noticeable. Death rate which was at 48.6 per thousand in 1911-20 came down to 7.1 per thousand in 2010-11 and it is 63 2017 (SRS) But, the birth rate showed a slight decline initially and does family planning drive birth rate also declined to 21.8 per thousand in 20 11and it is 20.21 in 2017 (SRS). There is a steady fall in the infant mortal In the second decade of the 20th century, infant mortality rate was 218 1,000 live births and it is 47 per 1,000 live births in 2010 and it is 33 2017 (SR). Over the years, maternal mortality has also declined. It was 2 per 1 lakh live births in 2007-2009 and it is 122 in 2017 (SRS).

Thus, the high growth rate of population can be explained in terms of high birth rate but a relatively fast declining death rate. Kerala, Tamil Nadu Andhra Pradesh (combined), West Bengal, Karnataka, Maharashtra and Punjab have achieved a birth rate below 20 per 1,000. These states are in the 3 stage of demographic transition. But, Haryana and Gujarat which occupied a high place in India in terms of per capita income are far behind in reduction of birth rate. Uttar Pradesh, Rajasthan, Bihar and Madhya Pradesh have very high birth rate in the range of 27-28 per thousand. These states are the 2nd stage of demographic transition. It is not easy to bring down the birth rate, when the socio-economic conditions favour a larger family. Still, family planning has not become a way of life for many people. People's attitude towards marriage, family, family planning must change to achieve substantial decline in the birth rate.

5.5.3 Sex Ratio

The sex ratio is defined as the number of females per 1,000 males Table-5.3 explains the sex ratio in India. The sex ratio declined from 972 in 1901 to 946 in 1951 and to 927 in 1991. It is a disturbing feature subsequently there is a marginal improvement in the sex ratio. It is increased to 933 in 2001 and to 940 in 2011. Kerala alone shows a higher proportion of females of 1,084 per 1,000 males in 2011. In Punjab and Haryana, females account for 893 and 877 per 1,000 males in 2011 respectively which are at the bottom. Poverty, higher female infant mortality rates, high mortality rates among women in reproductive ages and sociological factors including a bias against female births are responsible for declining sex ratio. In the advanced western countries, the proportion of women in total population higher than that of males.

5.5.4 Age Composition

The study of age composition is useful in determining the proportion of labour force in the total population. The working age of the population is considered as 15-60 years. Table - 5.4 indicates that the proportion of child population in the 0-14 year's age group is 35.6% in 2001 and this is lower than the earlier figures. The working age pertains to 15-60 years is called as productive age group. Both the child population and old population are dependent on the productive age group for their maintenance and sustenance. There is a decline in the dependency load of the population and increase in the share of the productive age group. Demographic dividend is likely to manifest in the gradual increase in the working age group of 15- 60 years. A recent report from the UN Population Fund estimates that India's working age population will reach 65% by 2030. India will also enjoy the longest demographic dividend compared to any other country till 2055. The realization of the demographic dividend will depend on improving health care levels as well as increasing human resource development. A rise in the rate of economic growth due to a rising share of working age people in the population is called the demographic dividend. The rapid increase in labour force creates pressure for creation of employment opportunities. If economic growth does not create employment, rapid growth of unemployment cannot be ruled out and this may create social unrest and social evils in the society.

5.5.5 Life Expectancy at Birth:

We noted from age profile analysis that the proportion of the aged 60 years and above increased over the years. This is in view of increase in the average life of the Indians which can be seen from Table 5. 7. While in the early 1950s, a new born baby hoped to live for about 32 years today in 2010, life expectancy at birth is 64.4 years. It is interesting to note that in the recent decades, the average expectancy of life of females is marginally higher than males.

Table 5.5.5Life Expectancy at Birth in India (years)

Period/Year	Male	Female	Combined
1941-50	32.4	31.7	35.21
1951-60	41.9	40.6	35.80
1961-70	46.4	44.7	41.74
1981	50.5	50.9	50.0
1991	58.2	57.7	58.7
2001	68.6	71.1	63.0
2010	64.6	67.7	66..1
2021	73.2	68.89	69.96

5.5.6 Urbanization:

Economic development, industrialization and urbanization move together. Urbanization tells to what extent a country's population is concentrated in towns, cities and metropolis. An area having at least 5000 population with a density of 400 persons living per square kilometer (overall density in India at present is about 370) and 75% of the male workers earn their living from non-agricultural occupations. It is measured as % of urban population in the total population of the country. Table 5.5.6 gives details of urbanization during 1951-2021.

Table 5.5.6 Growth of Urbanization in India

Year	**No .of Urban areas**	**Urban Population**	**Percentage of urban population to total population**
1951	2843	6.2	17.3
1961	2365	7.9	18.0
1971	2590	10.9	19.9

1981	3378	16.0	23.9
1991	3768	21.8	25.7
2001	NA	28.6	27.8
2011	-	39	32
2021	3962	46	35.39

5.5.7 Literacy Levels:

Literate and educated members of population constitute important real resources of a country. Level of incomes, fertility rate etc. are affected by quality of human resources. Not only improvements in overall literacy rate are needed but also improvements in female literacy. Data on literacy rates are given in Table 5. 5.7

Literacy Rates (%)

Year	Combined	Male	Female
1951	18.3	27.15	8.86
1961	28.3	40.40	15.35
1971	34.5	45.96	21.97
1981	43.6	56.4	29.8
1991	52.2	64.1	39.3
2001	64.8	75.3	53.4
2011	74.0	82.1	65.4
2021	84.4	71.5	77.7

5. 6 Population Policy in India, 2000:

The National Population Policy, 2000 outlined immediate, medium term and long term objectives. The immediate objective is to meet needs of the contraception, health infrastructure, and health personnel and to provide integrated services for basic reproductive and child health care. The medium term objective is to reduce the total fertility rates to the replacement level by 2010. The long term objective is to stabilize the population by 2046 A.D

The National Population Policy listed the following measures to achieve a stable population by 2046A.D

1. Reduction of infant mortality rate below 30 per 1,000 live births.
2. Reduction of maternal mortality rate to below 100 per 1, 00,000 live births.
3. Universal immunization.
4. Achieve 80% deliveries in regular dispensaries, hospitals and medical institutions with trained staff.
5. Access to information, containing AIDs, prevention and control of communicable diseases.
6. Incentive to adopt two child small family norms.
7. Facilities for safe abortions to be increased.
8. Strict enforcement of Child Marriage Restraint Act and Pre-Natal Diagnostic Techniques Act.

9. Rising the age of marriage of girls not earlier than 18, and preferably raising it to 20 years or more.
10. A special reward for women who marry after 21 and opt for a terminal method of contraception after the second child.
11. Health insurance covers for those below the poverty line who undergo sterilization after having two children.
12. Achieve universal access to information, counseling and services for fertility regularization and contraception.
13. Bring about convergence in implementation of related social sector programmes to make family welfare a people centered programme.

The National Commission on population has been set up to review the implementation of the population policy from time-to-time. State level commissions on population also have been set up with the objective of ensuring the implementation of the national population policy.

Nowhere in the world, has growth rate of population declined without the spread of education and substantial improvement in the standard of living. In India these aspects have been very much ignored to reduce fertility rate.

5.7 SUMMARY

National income means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money. National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national expenditure. In this chapter, we studied the various aspects relating to trends in National income in India. It was clear that, with the collapse of the Soviet system in the early 1990s, India adopted a series of free-market reforms that fueled the growth of its middle class, and its highly educated and well-trained workforce made India one of the global centres of the high-technology boom that began in the late 20th century and produced significant annual growth rates. The agricultural sector remains the country's main employer (about half of the workforce), though, with about one-fifth of the gross domestic product (GDP), it is no longer the largest contributor to GDP.

Manufacturing remains another solid component of GDP. However, the major growth has been in trade, finance, and other services, which, collectively, are by far the largest component of GDP. On the other hand the Demographic trends in India were also discussed in this chapter. Demography is the study of the growth, structure, and movement of human populations. It focuses on enumerations (censuses), which take stock of a population at a moment in time, and also flows of vital events—births, deaths, marriages, and migratory movements. The demographic analysis proves that the India's population is young. Its birth and death rates are both near the global average. More than half the population is under age 30 and less than one-fourth is age 45 or older. Life expectancy is about 68 for men and 70 for women.

5.8 KEY WORDS

1. **National income:** The flow of goods and services produced in an economy in a year or a particular period of time
2. **Percapita income**: National Income/Population
3. **Literacy Rate:** Seven year and above aged population X1/Population
4. **Demographic dividend** : It refers to the growth in an economy that is the result of a change in the age structure of a country's population. The change in age structure is typically brought on by a decline in fertility and mortality rates.

5.9 SELF ASSESSMENT QUESTIONS

Essay type questions:

1. Explain the National Income Trends in India?
2. Briefly explain the sectorial contribution to the National Income?
3. Explain the theory of Demographic Transition

Short Answer questions :

1. Bring out the main elements of population policy, 2000?
2. Population Features of 2021estimates
3. World population
4. Size and growth rate of population in India

5.10 SUGGESTED READINGS

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2. Mishra and Puri, "Indian Economy", Himalaya Publishing house, New Delhi, 2021

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4. "Indian Economy", Telugu Academy, 2015

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LESSON - 6
POVERTY, INEQUALITY AND UNEMPLOYMENT

Aims and objectives

After completing the lesson the student will have knowledge on the following:

- ✓ What is poverty, causes and eradication programmes in India
- ✓ What do you mean by inequality in income and wealth and various issues relating to inequality.
- ✓ What is Unemployment, causes, measures and other issues relating to unemployment.

Structure

6.1 Introduction
6.2 Poverty
6.3 Inequalities
6.4 Unemployment
6.5 Summary
6.6 Key Words
6.7 Self Assessment Questions
6.8 Suggested Readings

6.1 INTRODUCTION

Underdeveloped countries have made concerted attempts in recent years to develop with the objectives of narrowing down the gap that presently exists between them and the developed countries. However they have failed to achieve any marked success in this direction. The most important reason for this failure is the prevalence of high degree of poverty and unemployment along with inequalities in income and wealth distribution. Because of colonial rule and the one sided policy implementations in India, the private ownership of means of production inevitably leads to concentration of wealth in few hands. The problem of mass poverty is a natural outcome of the income inequalities. On the other hand, widespread unemployment is perhaps the most striking symptom of inadequate development in India. Hence an attempt is made in this chapter to explain the concepts of Poverty, Unemployment and Inequalities in distribution of income and wealth in detail.

6.2 POVERTY

Poverty is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. Poverty means that the income level from employment is so low that basic human needs can't be met. Poverty is situation where a section of the society for no fault of their own is denied of even basic needs of life such as food, clothing and shelter. These are fundamental necessities required to be fulfilled for human beings to lead a dignified life. In a country where a large portion of population is denied of these minimum amenities of life since long period, we may say the country is in vicious circle of poverty.

According to World Bank, Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life. In India, 14.96% of the population lives below the national poverty line in 2023. In 2018, almost 8% of the world's workers and their families lived on less than US$1.90 per person per day (international poverty line).

6.2.1Types of Poverty

There are two main classifications of poverty

Absolute Poverty: A condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing). This condition makes it possible to compare between different countries and also over time. It was first introduced in 1990, the "dollar a day" poverty line measured absolute poverty by the standards of the world's poorest countries. In October 2015, the World Bank reset it to $1.90 a day. Therefore in every country to measure the minimum standard of living the basic consumption basket is taken into consideration, which includes the food items that are consumed in that specific society necessary for attaining healthy living. Along with that, access to other important non-food items is also considered. These food and nonfood items are converted into monetary units to definite it as Poverty line. People whose consumption expenditures are found below the poverty line are the people suffering with absolute poverty which means their income is insufficient to fulfill their basic and fundamental needs to lead a dignified life.

Relative Poverty: It is defined from the social perspective that is living standard compared to the economic standards of population living in surroundings. Hence it is a measure of income inequality. Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income. In the calculation of relative poverty the extent of income or consumption of top most 10% population is compared with bottom most 10 % population. Usually the measure of relative poverty is used in affluent or developed countries. But the underdeveloped countries it is the existence of absolute and mass poverty that is cause of concern.

6.2.2 Poverty Estimation in India

India lacks appropriate and reliable data for direct-estimation of the extent of poverty, as no attempt has been made so far in this country to collect statistical information in respect of income distribution. However, the NSSO data on consumption expenditure provide such information that can be used for determining the incidence of poverty both in urban and rural sectors.

- Poverty estimation in India is carried out by NITI Aayog's task force through the calculation of poverty line based on the data captured by the National Sample Survey Office under the Ministry of Statistics and Programme Implementation (MOSPI).
- Poverty line estimation in India is **based on the consumption expenditure** and not on the income levels. Poverty is measured based on consumer expenditure surveys of the

National Sample Survey Organisation. A poor household is defined as one with an expenditure level below a specific poverty line. The incidence of poverty is measured by the poverty ratio, which is the ratio of the number of poor to the total population expressed as a percentage. It is also known as **head-count ratio.**

- The poverty line is the minimum amount of money required for existence & survival of a person with physical efficiency. Any person earning less than the prescribed would be considered to be deprived in this dimension. Before publication of Tendulkar Committee Report, Poverty line in India was based on the recommendation of Task Force(1979).
- **Alagh Committee (1979)** determined a poverty line based on a minimum daily requirement of 2400 and 2100 calories for an adult in Rural and Urban area respectively. Poverty line for the next 35 years was obtained inflating the poverty line using Consumer Price Index for Agricultural Labour for Rural India and Consumer Price Index for Industrial workers for Urban India.
- Subsequently different committees; Lakdawala Committee (1993), Tendulkar Committee (2009), Rangarajan committee (2012) did the poverty estimation.
- As per the Rangarajan committee report (2014), the poverty line is estimated as Monthly Per Capita Expenditure of Rs. 1407 in urban areas and Rs. 972 in rural areas.
- The 2022 report of the UNDP on MPI was released in October 2022 and covers 111 developing countries. As regards India, the survey data for 2019-21 has been used. Based on these estimates, 16.4 per cent of the population in India (228.9 million people in 2020) is multi dimensionally poor while an additional 18.7per cent is classified as vulnerable to multidimensional poverty (260.9 million people in 2020). The intensity of deprivation in India, which is the average deprivation score among people living in multidimensional poverty, is 42 per cent. The MPI value, which is the share of the population that is multi dimensionally poor adjusted by the intensity of the deprivations, is 0.069. The report also compares multidimensional poverty with monetary poverty measured by the percentage of the population living below the 2011 PPP of US$1.90 per day. It shows that monetary poverty does not present the complete picture. The headcount or incidence of multidimensional poverty is 6.1 percentage points lower than the incidence of monetary poverty. This implies that individuals living below the monetary poverty line may have access to non-income resources. The findings of the report suggest that in India, 41.5 crore people exited poverty between 2005-06 and 2019-21, demonstrating that the SDG target 1.2 of reducing at least by half the proportion of men, women, and children of all ages living in poverty in all its dimensions according to national definitions by 2030 is possible to achieve. The poorest states and groups (children, lower castes and those living in rural areas) reduced poverty the fastest in absolute terms, although the data do not reflect post-Covid-19 pandemic changes.

6.2.3 Causes of Poverty in India

In almost all underdeveloped countries where per capita income is very low, income inequality has resulted in a number of evils, of which poverty is certainly the most serious one. In India, even now in spite of all the development during the past seven decades, nearly one thirds of population is poor and for most of the time suffers from extreme destitution. No one says that equitable distribution of present income in India will make everyone rich, but there must not be any doubt about the fact that it will ensure the required minimum consumption to all. In this context the major resons for Poverty in India have been presented in the following lines.

1. **Population Explosion:** India's population has steadily increased through the years. During the past 45 years, it has risen at a rate of 2.2% per year, which means, on average, about 17 million people are added to the country's population each year. This also increases the demand for consumption goods tremendously.
2. **Low Agricultural Productivity:** A major reason for poverty in the low productivity in the agriculture sector. The reason for low productivity is manifold. Chiefly, it is because of fragmented and subdivided land holdings, lack of capital, illiteracy about new technologies in farming, the use of traditional methods of cultivation, wastage during storage, etc.
3. **Inefficient Resource utilisation:** There is underemployment and disguised unemployment in the country, particularly in the farming sector. This has resulted in low agricultural output and also led to a dip in the standard of living.
4. **Low Rate of Economic Development:** Economic development has been low in India especially in the first 40 years of independence before the LPG reforms in 1991.
5. **Price Rise:** Price rise has been steady in the country and this has added to the burden the poor carry. Although a few people have benefited from this, the lower income groups have suffered because of it, and are not even able to satisfy their basic minimum wants.
6. **Unemployment:** Unemployment is another factor causing poverty in India. The ever-increasing population has led to a higher number of job-seekers. However, there is not enough expansion in opportunities to match this demand for jobs.
7. **Lack of Capital and Entrepreneurship:** The shortage of capital and entrepreneurship results in low level of investment and job creation in the economy.
8. **Social Factors:** Apart from economic factors, there are also social factors hindering the eradication of poverty in India. Some of the hindrances in this regard are the laws of inheritance, caste system, certain traditions, etc.
9. **Colonial Exploitation:** The British colonisation and rule over India for about two centuries de-industrialised India by ruining its traditional handicrafts and textile industries. Colonial Policies transformed India to a mere raw-material producer for European industries.
10. **Climatic Factors:** Most of India's poor belong to the states of Bihar, UP, MP, Chhattisgarh, Odisha, Jharkhand, etc. Natural calamities such as frequent floods, disasters, earthquake and cyclone cause heavy damage to agriculture in these states.

6.2.4 Poverty Alleviation Programs in India

The strategy of direct assault on poverty through rural development and rural employment programmes was first adopted in 1970s. With the Fifth Plan, poverty alleviation came to be accepted as one of the principal objectives of economic planning in this country. During the 1970s a number of special programmes for the rural poor were undertaking of which the important ones were SFDA, MFAL, DPAP, CSRE, PIREP and FWP. None of these programmes comprehensively covered the whole country, though in certain parts of the country some of these programmes operated simultaneously for the same target groups. The adhocism in these progammes further reduced their effectiveness from the point of view of poverty alleviation. Hence the need was felt for undertaking programmes which were not only far more comprehensive in coverage but could also make a direct assault on poverty. Some important programmes of poverty alleviation are discussed hereunder.

1. **Integrated Rural Development Programme (IRDP):** It was introduced in 1978-79 and universalized from 2nd October, 1980, aimed at providing assistance to the rural poor in the form of subsidy and bank credit for productive employment opportunities through successive plan periods.
2. **Jawahar Rozgar Yojana/Jawahar Gram Samridhi Yojana:** The JRY was meant to generate meaningful employment opportunities for the unemployed and underemployed in rural areas through the creation of economic infrastructure and community and social assets.
3. **Rural Housing – Indira Awaas Yojana:** The Indira Awaas Yojana (LAY) programme aims at providing free housing to Below Poverty Line (BPL) families in rural areas and main targets would be the households of SC/STs.
4. **Food for Work Programme:** It aims at enhancing food security through wage employment. Food grains are supplied to states free of cost, however, the supply of food grains from the Food Corporation of India (FCI) godowns has been slow.
5. **National Old Age Pension Scheme (NOAPS):** This pension is given by the central government. The job of implementation of this scheme in states and union territories is given to panchayats and municipalities. The states contribution may vary depending on the state. The amount of old age pension is Rs. 200 per month for applicants aged 60–79. For applicants aged above 80 years, the amount has been revised to Rs. 500 a month according to the 2011–2012 Budget. It is a successful venture.
6. **Annapurna Scheme:** This scheme was started by the government in 1999–2000 to provide food to senior citizens who cannot take care of themselves and are not under the National Old Age Pension Scheme (NOAPS), and who have no one to take care of them in their village. This scheme would provide 10 kg of free food grains a month for the eligible senior citizens. They mostly target groups of 'poorest of the poor' and 'indigent senior citizens'.
7. **Sampoorna Gramin Rozgar Yojana (SGRY):** The main objective of the scheme continues to be the generation of wage employment, creation of durable economic infrastructure in rural areas and provision of food and nutrition security for the poor.
8. **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005:** The Act provides 100 days assured employment every year to every rural household. One-third of the proposed jobs would be reserved for women. The central government will also establish National Employment Guarantee Funds. Similarly, state governments will establish State Employment Guarantee Funds for implementation of the scheme. Under the programme, if an applicant is not provided employment within 15 days she/he will be entitled to a daily unemployment allowance.
9. **National Rural Livelihood Mission: Aajeevika (2011):** It evolves out the need to diversify the needs of the rural poor and provide them jobs with regular income on a monthly basis. Self Help groups are formed at the village level to help the needy.
10. **National Urban Livelihood Mission:** The NULM focuses on organizing urban poor in Self Help Groups, creating opportunities for skill development leading to market-based

employment and helping them to set up self-employment ventures by ensuring easy access to credit.

11. **Pradhan Mantri Kaushal Vikas Yojana:** It will focus on fresh entrant to the labour market, especially labour market and class X and XII dropouts.
12. **Pradhan Mantri Jan Dhan Yojana:** It aimed at direct benefit transfer of subsidy, pension, insurance etc. and attained the target of opening 1.5 crore bank accounts. The scheme particularly targets the unbanked poor.
13. **Pradhan Mantri Grameen Awaas Yojana :** Launched in the year 2015, the above programme is one of the most flourishing schemes under the poverty alleviation programmes initiated by the government. The main aim is to provide free houses for the people living in the rural areas that are considered BPL. Here, the advancement is made through the subsidy process, involvement of the private sector and reasonable housing to the people at subsidized rates.
14. **Pradhan Mantri Ujjwala Yojana (PMUY):** Launched in the year 2016, it was launched to distribute 50 million LPG connections to women of Below Poverty Line (BPL) families.
15. **PM Garib Kalyan Yojana: It** was launched by PM Narendra Modi launched in 2016. It was implemented on the 17th of December 2016 by the Ministry of Finance. The main motive behind the PM Garib Kalyan Yojana was to make tax evaders bring out unaccounted black money to avoid penalties, which would help the welfare of the unprivileged section of society. PM Garib Kalyan Yojana was applicable from 2016 to 2017. During Covid-19 Pandemic, the weaker section of society suffered to meet the basic necessities, due to which PMGKY got extended. The phase-2 of the PM Garib Kalyan Yojana introduced relief packages to the poor section of society. PMGKY introduced various support facilities to smoothen the livelihood of the underprivileged section starting from healthcare to food. During the lockdown period, the Pradhan Mantri Garib Kalyan Yojana was a blessing for poor families.
16. **Solar Charkha Mission:** It was launched 2018 and It is one of the poverty alleviation programmes in India which ensures to set up the Solar charkha clusters in progressed sectors of India by providing employment to about 1 lakh people.
17. **National Nutrition Mission**: **:** It was launched 2018, The goal of this scheme is to improve the nutritional conditions of children nationwide and lower the cases of under nutrition. Additionally, it helps to enhance the adolescent pregnant mothers breastfeeding mothers and young children
18. **Pradhan Mantri Shram Yogi Maan Dhan**: It was launched 2019, It is a Central Government that launched a scheme that was implemented for the total security of unorganized workers’ social security and safety in old age.
19. **Prime Minister Street Vendors Atmnirbhar Nidhi PM SVanidhi:** It was launched 2020, this scheme helps street sellers with micro-credit facilities who have been impacted by Covid 19 epidemic.

6.3 INCOME INEQUALITIES

The Government of India introduced new economic reforms in the early 1990's. Even after completing 25 years of post-reform period, India continues to struggle with several major problems like poverty, inadequate infrastructure and economic inequality. A study by the World

Institute for Development of Economics Research at United National University reports that the richest 1 percent of individuals alone owned 40 percent global assets by the year 2000. The three richest people in the world possess more financial assets than the lowest 48 Nations combined. The 85 wealthiest individuals in the world have a combined wealth equal to that of the bottom 50 percent of the world population.

6.3.1 Income Inequalities during the First Three Decades of the Planning Period

Income distribution in different years/periods during the 1950s was estimated by F.H. Lydall, N.S. Iyengar and M. Mukherjee, the RBI' and the NCAER. The broad picture that emerges from these estimates is as follows: It appears from the estimates of Lydall and the NCAER that the top 10 per cent of the households had received about 35 per cent of the income. According to the estimates of the Reserve Bank and Iyengar and Mukherjee, the top 10 per cent households accounted for about 25 per cent to 28 per cent of the income. All the estimates except the one made by the NCAER suggest that the bottom 20 per cent received about 8 to 9 per cent of the income, while in terms of the NCAER estimates their share was about half of what was indicated by the other studies. Further, both the NCAER and the Reserve Bank studies suggest that in the 1950s the distribution of personal income in the urban sector was more unequal than in the rural sector.

The NCAER and P.D. Ojha and V.V. Bhatt estimated personal income distribution at different points of time during the second decade of the planning period. The NCAER carried out nationwide surveys during the 1960s to collect data on consumption expenditure in 1964-65. Its data on income distribution in 1964-65 are a by-product of this survey. Ojha and Bhatt in of income distribution in during 1963-64 and 1964-65 relied on all available data from various sources. They used the CSO data on national income, estimates of direct taxes paid by unincorporated business, and households saving data for estimating the aggregate consumption which they distributed among the decile expenditure groups of population on the basis of relevant NSS percentage distribution. On the assumption that savings in this country are done only by the richest, they were added to the consumption expenditure to the top most group. For all other groups, income was taken as equivalent to their consumption expenditures.

Though the different estimates used for explaining income distribution at different points of time during the second decade of planning suffer from various data problems, yet their results are strikingly similar. Taking all the estimates together, it can be said that the bottom 20 per cent of the population had a share of about 7.5 per cent of total personal income; the top 20 per cent of the population had a share of about 47 per cent; and the Lorenz ratio was between 0.35 and 0.39. Further, the income share rose relatively slowly on shoving from lower deciles to upper deciles. Only when we go up from the seventh or eighth deciles to the top most deciles, we notice a significant increase, that is, between 2 and 3 times that of the preceding deciles. This clearly indicates extreme concentration of income at the top which is typical of many underdeveloped countries. Finally, there was greater concentration of income in the urban sector than in the rural sector. The estimated average annual income of the topmost deciles was about 18 times that of the lowest in urban sector, while for the rural sector it was about 10 times.

The Planning Commission in the Draft Five Year Plan 1978-83 observed, "Trends in the distribution of income and wealth are difficult to discern, but the evidence of persistence of gross inequalities is clear. Analysis of consumption expenditure (data source: National Sample Survey-28th Round) shows that in 1973-74 the lowest 20 per cent accounted for 9.5 per cent of total consumption in rural areas while the highest 20 per cent accounted for 38 per cent. For urban areas the corresponding figures were 9.2 per cent and 40 per cent. The concentration ratios for two distributions were 0.27 and 0.30. The inequality of incomes for both groups would be greater than consumption inequalities."

The Planning Commission's view that income inequalities are far greater than consumption inequali- ties is corroborated by the World Bank estimates of income inequalities. The World Bank estimates for 1975-76 are based on the results of a joint project of the World Bank and the International Labour Organization. These estimates show that in 1975-76 the lowest 20 per cent households (rural and urban households combined) accounted for 7 per cent of the household income while the highest 20 per cent accounted for 49.4 per cent. In India had 302.4 million households in 2021. The indicator recorded a year-on-year increase of 1.8% in 2021. Between 2010 and 2021, the indicator increased by 24.3%. The number of households in India was highest in the year 2021 and lowest in the year 2010, between 2010 and 2021.

6.3.2 Causes of income inequalities in India

The statistical figures show that there is a clear evidence of glaring income inequalities in India. Under such a situation it is important to analyse various causes responsible for such unjustifiable inequalities in the distribution of income and property in the country. Let us analyse these causes which are responsible for such predominant inequalities.

I Private Ownership of Property

India is a mixed economy. Under this system people are guaranteed a right to hold private property. Every individual has the right to own land, buildings, factories, and all means of production, vehicles, farm land etc.. In our society there is a class structure. One class posseses both private property and means of production which helps them earn more and more property. The others are who depend on their labour for their livelihood and subsistence. Except the intellectual labour and professionals all the other struggle for their survival. This gives rise to growing inequalities and thus to poverty.

1. Inequalities arising out of concentration of land ownership in the rural sector

In India since the British period there is huge concentration of economic power in the land ownership as a result of prevalence of zamindari system. Even after independence though zamindari system was abolished concentration of land ownership remain unaltered in the name of ownership cultivation and absentee land lordism. As per the 26th round of NSS large farmers comprising only 5.44% possessed 39.43% of the total agricultural land, 43.99% of marginal farmers (having below 1 acre land) possessed only 1.58% of the total agricultural land. Moreover, with the changes in time, absolute number of tiny land holdings have increased there by the average size of holdings of farmers declined from 0.27 acre in 1953-54 to 0.14 acre in 1971-72. On the contrary the average size of the land holdings of big farmer remained almost same. In the year 1971-72 the size of the land holdings of big farmers is 73.8 acres. Since then there is no record of considerable change in the land ownership pattern. More over in the book "Economic Inequalities and Poverty in Indian written by Suresh D Tendor in VR Brand and VR Panchamukhi (eds) pronounce that with the impact of green revolution the income inequalities have glaringly increased in the rural economy.

2. Private ownership of industries, trade and buildings

The survey conducted by NCAER in 1975-76 revealed that the distribution of assets in the urban areas was having high skewness. In the same year the top 10% of urban population owned 46.28% of total wealth as compared to that of only 11.67% of wealth owned by bottom 60% of population. Similar survey conducted by NSS in 1981-82 shows same kind of results This unequal of assets has resulted in the higher earning capacity of industrialists, real estate owners, traders and transporters, who have average intelligence. On the other hand professionals and skilled population who are enterprising, highly intelligent and qualified have no enough opportunities to prove their worth and are employed in unorganized sector and many a time they are under employed. Underemployment, unemployment leading to poverty among the intelligent may lead to violence, political and social instability. This kind of cynicism and violence among youth is retractive for economic development.

3. Inequalities in the levels of professional knowledge

Inequalities in personal income also results in inequalities in the levels of professional competence, knowledge and training. Root cause for this sort of inequalities is the disparities in the distribution of wealth and property. The children of poor cannot dream of acquiring higher education even though they are competent enough. Therefore there is no change in the income disparities in India for generations together.

II . The law of inheritance

This law provides legitimacy to income inequalities. The son of a big capitalist will be a capitalist and the son of a daily wage labourer will generally become a labourer. As per this law the property of the father is inherited by his children. As a result the children of richer class automatically will become richer and the children of lower strata will remain poverty stricken. Thus law of inheritance accelerates income inequalities.

III. Other Causes

Apart from the two basic causes of existing income inequalities discussed above, there are a few other factors which also have a bearing on inequalities. The most important of them are as follows.

1.Inflation and the price rise

Since the mid-1950s prices have been rising continuously eroding the real income of the working class, while the industrialists, traders, and farmers with large marketable surplus have benefited a great deal from this inflationary process. In India, very little has been done to offset this redistributive effect of inflation, and as a result it has greatly accentuated income inequalities.

2. Inequity in credit facilities

In India, there is inequity in credit facilities which accentuates the inequalities arising from an unequal distribution of wealth. Business firms and individuals having an access to the formal capital markets manage to obtain finance on very favourable terms, while vast mass of small and marginal farmers, agricultural labourers and artisans depend heavily on moneylenders who charge an exorbitant rate of interest and also exploit these poor people in a number of ways.

3. Urban bias in private investment

While 60 per cent of the population in this country lives in rural areas, about 20 per cent of private investment goes to industries in urban areas. Therefore, there is a distinct 'urban bias' in the pattern of private investment. This urban bias takes the form of highly mechanised projects in which the share of wages in value added is relatively low. Therefore, as noted by Keith Griffin, "the rate of employment creation in the capital-intensive sector is slow, sometimes not even as fast as the rate of growth of the labour force." This naturally leads to inequality in income distribution.

4. The role of the government

Though the State is often proclaimed as a "precurser" and "initiator of economic change in India, the fact is that the State investment essentially plays a supportive role to private investmen) (especially the large and capital-intensive enterprises). This is due to the fact that the State depends for its support on the same social forces which own the wealth of the country and supply the technicians, administrators and the dominant political groups. In such an environment, the government merely guards the status quo and adopts policies which, on balance, are designed to perpetuate the hegemony of the propertied classes and those allied to them. (Even the public expenditure policies in the field of social welfare, i.e., health, education, social security and public housing help the relatively better off people more than they help the wretched poor belonging to the lowest income groups.

6.3.3. Measures to eliminate Inequalities in Income Distribution in India

After independence at the time of starting of five year plans Indian policies were mostly influenced by the ideas of World Bank Economists. The government felt there would be spread effects of over all growth and they would trickle down to the rural areas. But by the end of 1960s it is proved beyond doubt that the policies adopted had led to concentration of economic power and income inequalities. Hence great economists like Paul Streeten and Holis Chenery felt that the economic policies followed by the Indian government proved about the myth of spread effect strategy and those policies failed in achieving the goal of redistribution of income and wealth. Depending on such opinions and experiences the government had initiated programmes leading to integrated development of poor people which can decrease inequalities in income.

1. **Land Reforms and Redistribution of ceiling Surplus land**

In the rural economic setting in India as we have observed the major cause of inequalities in income is the concentration of land holdings in the guise of own cultivation (absentee land lordism). Though outwardly it may appear that zamindari system is abolished, but the owner himself stated exploiting the tenant. Various legislative measures and institutional reforms are taken to eliminate the faulty land ownership system in the name of land reforms such as tenancy reforms and redistribution of land, consolidation of land holdings, creation of economic holdings. Unfortunately all these measures failed to achieve the desired redistribution of land holdings and providing ownership rights to small & marginal farmers. The government if it still follows the Gandhin principles and introduce co-operative farming, it may to some extent attack the problem of inequalities in the positive direction.

2. **Control over Monopolies and Restrictive trade practices**

The government appointed the Monopolies Inquiry Commission (MIC) to enquire into the monopoly power and restrictive trade practices of private sector which submitted it's report in 1965. Follow up action on the report of MIC resulted in MRTP act in 1970. Under this act a permanent statutory commission was set up to investigate case by case the effects of most trade practices which are culminating in glaring inequalities of income. But according H.K Parajape

(The vanishing MRTP Act: will only the remain Grin) Under the present regime of liberalisation the monopoly trends of big industrial houses are likely to be strengthened and there by the economic disparities may further.

3. **Social security Measures**

Social security measures such as providing compensation in the case of injury or accident at work place or in factories is a provision made by the Workmen's Compensation Act, 'Maternity benefit Act for women workers, Employees Provident Fund Act for providing the benefit after their retirement are the security provisions provided by the INDIAN government. In addition to these, state provides most comprehensive social security measure through Employees' State INSURANCE Act which ensures medical benefits, sickness benefits, maternity benefits and pensions for dependent and old aged. No doubt all these measures reduce income inequalities through the reduction of poverty. But point to be noted is all these measures are applicable only to orgainsed urban sector. Unorganised workers in the urban sector, and workers in the rural areas stand out of 115 the realm of these benefits. These benefits which are absent in the rural and urban unorganized sectors are the major causes of inequalities. The above mentioned benefits are to be extended to the workers in unorganised sector also to reduce income disparities.

4. **Employment programmes**

With the increasing problem of unemployment since 4th five year plan onwards, the government is implementing several wage employment and self employment programmes to eliminate poverty and inequalities of income.

5. **Strict implementation of Direct taxes**

At the outset, designing the tax structure is an important strategy to reduce income disparities. progressive tax structure aims at the reduction of inequalities to avoid the evasion in the direct taxes by the affluent class, the government has to strengthen it's administrative machinery and remove the major shortfalls in the tax laws which are used in their favor by the tax evadors and also it is required that the government has to take stingent steps against tax evaders if it honestly wants to eliminate income inequalities.

6. **Occupational Diversification - Encouragement to small scale industries**

Rural economy in India is not diversified. Most of the population in the rural setting is dependent on agriculture either as small and marginal farmers or agricultural labourers. But agriculture in India is based on vagaries of monsoon. This sector can provide occupation only seasonally. All these without alternative employment opportunities makes the rural population struggle even for subsistence. Hence government has to encourage the small and tiny industries as advocated by Mahatma Gandhi and provide them the necessary skills which can improve their productivity in the industrial sector. Government also should provide easy credit from commercial banks and state's duty is to make arrangement to provide marketing facilities for the products produced in rural sector. Along with the diversification of the rural economy in order to protect rural industries from the completion of large scale industries there should also be some product reservation policy to be adopted by which the income levels of rural population can be enhanced and rural, urban divide can be reduced.

7. **Role of Government**

In a mixed economy like India both private and public sectors are complementary to each other giving a healthy competition to bring out optimum levels of output. But in the backdrop of Globalisation from 1990s the liberalisation policies adopted by the government, the role of govemment gradually declined. In addition, as the signatory to TRIMS it is inevitable for the entrance of FDI in various sectors and also the MNCs which are restricting the economic soveregnity of the country as the government is gradually but steadily losing it's grip on the foreign firms. May be the establishment of special economic zones, disinvestment policies of government, increasing FDI in the telecom, insurance, banking sectors are accelerating economic growth, and capital formation but are definitely increasing the economic inequalities. It is the responsibility of the government to formulate policies so that deprived poor losing their rights on common property resources have to be provided rehabilitation facilities. They should be assured of dignified living. Then only the glaring and unjustified inequalities of income will be eliminated.

6.4 UNEMPLOYMENT

Unemployment is one of the most difficult problems confronting the rapid growth of many economies of the world. Unemployment occurs when someone is willing and able to work but does not have a paid job. The unemployment rate is the percentage of people in the labour force who are unemployed. Consequently, measuring the unemployment rate requires identifying who is in the labour force. The level of unemployment in any country depends on its level of development and the composition of its population. As the country progresses its production expands the employment opportunities. Acceleration of growth process focuses on generating productive employment and reducing poverty and inequalities. Providing employment opportunities is not just a welfare measure in India, but it is a part of development strategy.

6.4.1 Types of Unemployment

In a developed country, the problem of unemployment is of two types ie. unemployment and frictional unemployment. Unemployment in such countries is generally caused by deficiency of effective demand. This can be eliminated by raising effective demand and provide various incentives to investors which has been done by most of the developed countries. The nature of unemployment in India is quite different from that of advanced countries. Due to population explosion, the demand for employment increases heavily, but the rate of growth of employment opportunities are far below, because of the lack of savings and investment potential in the economy The countries usually experience from cyclical unemployment due to lack of demand for industrial products. But developing countries like India suffer from structural unemployment. Unemployment is of many types and the following are the different kinds of unemployment

1. Cyclical Unemployment

Cyclical unemployment arises due to cyclical fluctuations in the economy. A business cycle consists of alternative periods of booms and depressions. It is during the down'swing of the business cycle that income and output fall leading to wide spread unemployment. This type of unemployment is generally witnessed in the developed countries.

2. Frictional Unemployment

This type of unemployment characterises developed economies as they push towards further development. It is a temporary phenomenon which occurs when people are changing. The time lost during the process of going from one job to another is the period of frictional unemployment. It arises due to the imperfections of labour market. Imperfections in labour market are reflected in the ignorance of labour about job opportunities and on the part of employers about the availability of workers.

3. Technological Unemployment

Modern production process is essentially dynamic where innovations lead to the adoption of new machineries and inventions there by displacing existing workers leaving behind a trail of unemployment. When the introduction of new technology causes displacement of workers, it is called technological unemployment.

4. Structural unemployment

Basically India's unemployment is structural in nature, related to the inadequacy of productive capacity to create enough jobs for all those able and willing to work. It is chronic and is the result of backwardness and low rate of economic development. Under this category unemployment refers to a situation where a large labour force does not get employment opportunities that may yield them regular income. It is the result of lack of complementary resources, specially capital. The rate of capital accumulation lags behind the rate of population growth. Structural unemployment is also called as open unemployment.

5. Seasonal unemployment

Seasonal unemployment results from seasonal fluctuations in demand. Generally seasonal unemployment is confined to the agriculture sector because nature predominates in agriculture. The demand for agricultural labour increases at the time of sowing and harvesting which provides employment for six to eight months and for the remaining period most of the agricultural workers remain unemployed. This temporary type of unemployment gives birth to seasonal unemployment.

6. Involuntary unemployment

According to Prof. Keynes involuntary unemployment refers to a situation in which people are ready to accept work at prevailing wage rate but fail to get the same wage. Normally such situation exists in capitalistic countries.

7. Disguised Unemployment or Rural unemployment

When more people are engaged in a job than actually required, it is known as disguised unemployment: We find this type of unemployment in agriculture sector in developing countries. The Indian agriculture sector is characterized by the existence of considerable amount of surplus labour. People are found to be apparently engaged in agricultural activities. But such employment is mostly sharing device. In such a situation, even if many workers are withdrawn the total production remains unchanged. The contribution of such production is zero or near zero digit

8. Under employment

Under employment is a situation in which a labourer does not get the type of works he is capable of due to the lack of jobs. In this situation employed people's contribution will be less than their capacity to the production. A country having this type of unemployment fails to exploit the efficiencies of their labourers. Engineer graduate working as an operator is said to be underemployed.

9. Educated Unemployment

Educated unemployment is concerned with joblessness among the educated Le matriculate or higher educated. When a person who is educated/trained and skilled fails to obtains stable job, suited to his qualifications, he is said to be educated unemployed. Presently this type of unemployment has become a problem for the developing economics, particularly for India. In the urban areas the rate of unemployment is higher among the educated than among the uneducated persons

10. Unemployment or Urban Unemployment

When population increases at a rapid rate, the size of economically active population is bound to increase. With the spread of urbanization, people will migrate from rural areas to urban areas. Moreover, during the off season quite a good number of workers from agriculture come to industrial centers to seek employment in factories. The rate at which expansion of industries has been taking place is not keeping pace with the growth of urban labour force. This has given rise to industrial unemployment.

6.4.2 Causes of Unemployment in India

Unemployment, as it exists in India has been due to a wide variety of factors operating differently at different times; causes for unemployment have to be manifold. The main causes of unemployment in India are as follows.

1. Increase in labour force.

Demographic pressure in the form of steady and continuous increase in the addition to the labour force has resulted in unemployment over the years. On the basis of NSS data (55 round), it has been revealed that the number of unemployed has increased from 20.13 million in 1993-94 to 26.58 million in 1999-2000. As a proportion of the labour force, the unemployment rate has 15 increased from 6.0 percent in 1993-94 to 7.32 percent in 1999-2000. According to the approach paper of eleventh plan, the rate of unemployment further increased to 8.3 percent in 2004-05. The economy has however, failed to respond to these challenges and the net result continuous increase in unemployment. Total population increased from 68.3 million in 1981 to 121.0 million in 2011 indicating an increase of 77.2 percent During the 30 year period. The annual average rate of growth of population during 1981 to 2011 was of the order of 1.84 percent. India’s population is expected to surpass China’s by 2024, making it the world’s most populated country for the rest of the twenty-first century. Because the country’s economic growth cannot keep up with population increase, a growing proportion of the population is unemployed.

2. Inadequate and Defective employment planning

Employment has often come up as an incidental by product of the planning process. During the first three decades of economic planning, employment increased at a rate of 2 percent per anum. However thereafter while the GDP growth rate picked up considerably, employment growth rate registered a sharp fall. The fact that high economic growth rate has been able to generate high employment growth, and it has, in fact, been accompanied by a slowdown in employment growth in recent years. Economists described this recent experience as "jobless growth". It is necessary to develop employment oriented growth strategy which can provide an effective solution to the problem of unemployment in India. The economy cannot keep up with demand for jobs as the population grows, and a rising number of individuals are unable to find work. As a result, employment levels across the country are insufficient.

3. More emphasis on Capital intensive techniques

The investment in different five year plans has increased but the employment potential created has not moved up proportionately. This mainly has been due to more emphasis on capital intensive projects. Our country should adopt labour intensive techniques of production. According to L.A. Lewis, in all those countries where unskilled labour is available in excess supply great care is to be taken in exercising choice in respect of techniques.

4. Defective education system

Indian education system is scarcely vocational and largely turns out clerical; clerical job seekers who annually add to the educated unemployment. The open door policy at the secondary and university level has increased manifold unemployment among the educated who are fit only for collar jobs. No doubt, the recent past trend has been shifted under new education policy towards engineering, medicine, commerce and other technical jobs but lack of proper man power planning has failed to make any head way to generate employment opportunities. It is the stark reality that vocational guidance is to be provided to avail the opportunity according to requirement.

5. Dependence on Agriculture sector

Agriculture is the mainstay of Indian economy because of its high share in employment and lively hood creation not withstanding its reduced contribution to the nation's GDP. It is the most important sector of the economy from the perspective of poverty alleviation and employment generation. When there is growth, more number of people will get employment and their real wages will also increase and this will have a positive impact on the rural poor. There is a deceleration in the growth of agricultural output in the post reform period. The slowdown of agricultural development programmes in the post reform period has an impact on employment situation in the economy.

6. Lack of required skills

According to a survey, 33 percent of India's educated youth are unemployed due to a lack of future skills. Even after leaving school, millions of students in our country lack hands-on learning and solid practical expertise. The educational system now undervalues physical, unskilled labour. Physical labour is despised by the educated. As a result, after completing formal education, the rural adolescent looks for sedentary work in a government agency or a private firm. They are incapable and unwilling to work in the agricultural sector. As a result, the current educational system exacerbates rural unemployment.

7. Economic Development

The slow growth of economic development may also be stated as a reason for not creating more employment opportunities, more so in the context where the creation of additional employment opportunities. During the phase of planning, our country has made tremendous development in all sectors but the rate of growth is comparatively very low than the targeted rate. Thus, employment in adequate number could not be created.

6.4.3 Measures to reduce the intensity of unemployment

In India the generation of employment was viewed as a part of the process of development and not as a goal to be pursued independently of economic development. The following measures may be suggested for solving the unemployment problem in our country.

1. Choice of Techniques

During the period of rapid growth in the labour force, it would be advisable to adjust the choice of techniques consistent with the employment objective. It would be better to switch over to intermediate technologies (as advocated by Prof. Schumpeter) till the process of industrialization gets such a powerful momentum that the new entrants to labour force can be absorbed. Intermediate technology would be more suited to Indian conditions.

2. Development of Agriculture sector

Agricultural growth should receive top priority always. In the post reform period there has been a considerable slowing down of agricultural development programmes. The low level of investment in agriculture is one of the main causes of slow growth in agriculture in recent years. For increasing employment generation, it would be necessary to accelerate agricultural development programmes.

3. Reorientation of Education system

The high degree of unemployment among the educated signifies the urgent need to reorient our educational system to greater employment opportunities. The national labour commission recommended a labour utilisation approach to the problem of unemployment in the planning process, and a reorientation of the educational system so as to be inconsonance with the demands of high- level man power.

4. Population control

There is a need to control the growth of population to reduce the intensity of the unemployment problem. The unemployment will continue to increase if the population continues to grow at an alarming rate. So far the employment generating measures, as envisaged in the plans have not been able to provide jobs to the additional labour force, not to speak of tackling backlog of unemployment, Consequently a vigorous population policy aiming at reducing fertility rate should be implemented. A long term population policy along with an effective employment policy-both taken together can solve the problem of unemployment.

5. Encouragement to new growth centres in rural areas

If adequate facilities are made available. Millions of people may take to one business or the other producing goods or services. That holds out a great scope for the ecpasion of employment opportunities. In manufacturing sector, major contributor to employment is the small scale and informal sector if the government provides much higher amount of credit as suggested by the Nayak Committee and also recently supported by S.P. Gupta Study Group on development of small scale enterprises, it would go a long way in enlarging employment.

6.4.4. Major Government Employment Programmes

The Governmewnt of India implented number of programmes for employment generation as discussed below:

(i) The Integrated Rural Development Programme (IRDP): It was launched during 1978-79 to provide self employment in a variety of activities like sericulture, animal husbandry and land-based activities in the primary sector, weaving, handicrafts etc., in the secondary sector and service and business activities in tertiary sector.

(ii) The Scheme of Training Rural Youth for Self Employment (TRYSEM): This was initiated in 1979 with the objective of tackling unemployment problem among the rural youth. It aimed at training about 2 lakh rural youth every year to enable them to become self employed. The TRYSEM was merged into Swarna Jayanti Gram Swarozgar Yojana in April 1999.

(iii) The Rural Landless Employment Guarantee Programme (RLEGP): It was started on 15 August 1983, with the objective of expanding employment opportunities for the rural landless. The programme aimed at providing guarantee of employment to at least one from each landless household for about 100 days in a year.

(iv) Self employment to the educated urban youth (SEEUY): This programme was launched in 1983. The objective is to provide self employment to the urban educated youth between 18 to 35 years. Loans are provided to the beneficiaries with a subsidy of 25 per cent by the Government of India.

(v) Self employment programme to the urban poor (SEPUP): This programme was launched in 1986, with an aim of enabling the urban poor to set up their own economic enterprises. Loans up to Rs 50000 to 2,00,000 are provided. Out of the total unit cost 10 per cent of the amount must be contributed by the beneficiary. Bank should provide 65 per cent of the unit cost as loan. A subsidy of 25 percent will be given by the Government of India. This Programme has been merged with scheme of urban enterprises under NRY.

(vi) Jawahar Rozgar Yojana: This programme was started in February 1989 for intensive employment creation in 120 backward districts of the country. Later NREP and RLEGP were merged into a single rural employment programme on April 1, 1989 in to the Jawahar Rozgar Yojana. The JRY was restructured with effect from April, 1999 and was renamed as Jawahar Gram Samridhi Yojana (JGSY).

(vii) The National Rural Employment Programme (NREP): The National Rural Employment Programme started in the Sixth Plan was meant to help that segment of rural population which largely depends on wage employment and has virtually no source of income during the lean agricultural period.

(viii) The Employment Assurance Scheme (EAS): The EAS aimed at providing 100 days of unskilled manual work on demand to two members in the age group of 18 to 60 year in the agricultural lean season. During 1996-97 to 1999-2000, a total of 1,533.7 million man-day's employment was generated under the scheme.

(ix) The Swarna Jayanti Shahari Rozgar Yojana (SJSRY): This scheme provides gainful employment to the urban unemployed and underemployed poor, by encouraging the setting up of self-employment ventures and also by providing wage employment and utilizing their labour for construction of socially and economically useful public assets. A total of 4, 06,947 beneficiaries have been assisted in the year 2012-13.

(x) Prime Minister Rozgar Yojana (PMRY): It was designed to provide self-employment to more than a million educated unemployed youth by setting up seven lakh micro- enterprises under the Eigth Five Year Plan. This scheme provided employment to 74 lakh persons.

(xi) Swarnajayanti Gram Swarozgar Yojana (SGSY): It was launched from April 1, 1999 after restructuring the IRDP and allied schemes to provide self employment to the rural poor. SGSY has been restructured as the National Rural Livelihood Mission (NRLM) with affect from April 1, 1913. To begin with, National Rural Livelihood Mission will ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the Self-Help Group (SHG) network in a time bound manner.

(xii) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS): This scheme was launched from 2nd October, 2009. MGNREGS seeks to provide at least 100 days of guaranteed wage employment in a financial year to at least one member of every rural household whose adult members volunteer to do unskilled manual work. At least 33 per cent of the beneficiaries are to be women. Under MGNRES, wage disbursement through bank and post office is mandatory. This is likely to help in the "financial Inclusion "of the poor. MGNREGS provide a wage rate of Rs 100 per day to a worker. The focus of MGNREGS is on works relating to water conservation, drought proofing, land development, flood control and rural connectivity in terms of all roads. Panchayats have a key role in planning, implementation and monitoring of This Act is also significant vehicle for strengthening decentralization and deepening the grass root democratic structure. 69 The total expenditure under this scheme was 39,661 crores in 2012-13 and generated 229.93 crore person-days of employment.

(xiii) Deen Dayal Upadhyaya Grameen Kaushal Yojana: Deen Dayal Upadhaya Grameen Kaushal Yojana was launched on 25th September 2014 in view of 98th birth anniversary of Pandit Deenadayal Upadhyaya. Earlier the Yojana was known as Aajeevika Skills Development Programme (ASDP).

6.5 SUMMARY:

This chapter covered the major issues related to Poverty, Inequalities and Unemployment. Earlier it was hoped that with increasing consciousness the poor and deprived would build pressure on the government for certain concessions and this could prevent further widening of the gap between the rich and the poor. However, this psssibility is now to be ruled out. The correlation of forces at the moment is not in favour of the poor and the middle class and the partisan State ruthlessly intervenes all the time in favour of the rich. This process is likely to continue for some time and thus in coming years income inequalities would certainly continue to increase.On the otherhand, the remedial measures for reducing unemployment may lay greater emphasis on creation of opportunities for self employment, augmentation of productivity and income levels of the working poor, shift in emphasis from creation of relief type of employment to the building up of durable productive assets in rural areas.

6.6 KEY WORDS

1. Poverty line : The poverty threshold, poverty limit, poverty line, or breadline is the minimum level of income deemed adequate in a particular country. The poverty line is usually calculated by estimating the total cost of one year's worth of necessities for the average adult.

2. **Human Poverty**: It refers to the denial of political, social and economic opportunities to an individual to maintain a “reasonable” standard of living. Illiteracy, lack of job opportunities, lack of access to proper healthcare and sanitation, caste and gender discrimination, etc., are all components of human poverty.

3. Income inequalities: The richest 1% of Indians own 58% of wealth, while the richest 10% of Indians own 80% of the wealth. This trend has consistently increased, meaning the rich are getting richer much faster than the poor, widening the income gap.

4. Educated Unemployment: Educated unemployment refers to the phenomenon where individuals who have attained formal education, including degrees like matriculation, graduation, or post-graduation, are unable to find suitable employment that matches their educational qualifications.

5. Full Employment : Full employment refers to a situation in which all available labour resources in an economy are being used, and there is no significant surplus of unemployed workers. In other words, everyone who wants to work has a job, and employers are unable to find additional workers to fill open positions.

6.7 SELF ASSESSMENT QUESTIONS

Essay type questions:

1. Explain the causes for poverty and analyze the Governmental programmes to eradicate poverty.
2. What are the reasons for inequalities? Explain the various measures to control inequalities
3. Briefly examine the causes for unemployment? Suggest remedies
4. Evaluate the performance of various employment generation programmes introduced in India

Short Answer Questions :

1. Types of poverty
2. Poverty estimation in India
3. Role of Government in controlling inequalities.
4. Types of Unemployment

6.8 SUGGESTED READINGS

1. Rudra Dutt and KPM Sundaram,"Indian Economy", S.Chand and Coompany, New Delhi, 2019
2. Mishra and Puri, "Indian Economy", Himalaya Publishing house, New Delhi, 2021
3. Economic Survey of India, 2023
4. "Indian Economy", Telugu Academy, 2015.

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LESSON -7

RURAL DEVELOPMENT AND URBAN DEVELOPMENT

Aims and Objectives

After completing the lesson the student is able to understand the following concepts:

- ✓ What is rural development and what are the various issues relating to rural development
- ✓ What are the various initiatives adopted by Government of India for rural development in recent past
- ✓ What do you mean by Urban development and various issues relating to urban development
- ✓ What are various initiatives of Government of India for Urbanization.

Structure

7.1 Introduction
7.2 The Concept of Rural Development
7.3 Nature and Scope of Rural Development
7.4 Objectives of Rural Development
7.5 Importance of Rural Development
7.6 Development of India's aspiring rural economy – A recent Strategy
7.7 Urban Development
7.8 Nature of Urbanization in India
7.9 Main Causes of Urbanisation
7.10 India's Global Commitments regarding Urban Development
7.11 Obstacles for Urbanisation
7.12 Significance of Urban Living
7.13 Obstacles for Urbanisation
7.14 Measures for better Urbanization Process
7.15 Key Words
7.16. Self Assessment Questions
7.17 Suggested Readings

7.1 INTRODUCTION

Gandhiji underlined the importance of rural India by saying that 'India lives in villages'. Since then successive governments have been trying to develop the real India. In the various five year plans, development of rural areas has been one of the most abiding concerns. The Government of India started its plan of planned growth soon after independence. Rural development is a comprehensive term. It essentially focuses on action for the development of areas that are lagging behind in the overall development of the village economy. Some of the areas which are challenging and need fresh initiatives for development in rural India include Development of human resources and health, addressing both sanitation and public health. Rural development still remains the core of the overall development of the country. The backwardness of the rural sector would be a major impediment to the overall progress of the economy. India is predominately an agricultural country and farming is their main occupation. The percentage of the population living in India's rural areas was as high as around 80 per cent in the 1960s and remained over 68 by 2011 Census. It presently stands at 65 per cent for 2021. Further, 47 per cent of the population is dependent on agriculture for livelihood. Thus, the focus of the government on rural development is imperative. The emphasis has been on improving the quality of life in rural areas to ensure more equitable and inclusive development. The aim of engagement of the government in the rural economy has been "transforming lives and livelihoods through proactive socio-economic inclusion, integration, and empowerment of rural India."

7.2 THE CONCEPT OF RURAL DEVELOPMENT:

The term rural, consists of two elements, one is the living one, i.e., human beings and the other non-living i.e., infrastructure around them. The various scholars and recognised institutions have tried to define rural development, giving emphasis on one or the other element. Over the years, rural development has emerged as "a strategy designed to improve the economic and social life of a specific group of people the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas," Coopp, however, lays the whole emphasis on the human resource element and viewed that rural development as a process through which collective efforts, aimed at improving the well-being and self-realisation of people living outside the urbanised areas. He further contends that the ultimate target of rural development is people and not infrastructure.)

Rural development has also been seen as bringing harmony in the different stratas of the society. It recognises that there is a need of integrating objectives, namely more production. more employment and more equitable distribution of income Rural development also aims at integrating the low income segments with the rest of rural community by ensuring them a better participation in the production process and a more equitable share in the benefits of development. World Bank (1975) laid the exact focus of rural development and defined it as a strategy designed to improve the economic and social life of a specific group of people the rural poor" On the same line it was opined by Uma Leli (1975) that rural development is improving living standards of the mass of low income population residing in rural areas and making the process of their development self-sustaining."

7.3 NATURE AND SCOPE OF RURAL DEVELOPMENT

Over the years, rural development has emerged as "a strategy designed to improve the economic and social life of a specific group of people the rural poor. It involves extending the benefits of development to the rural population who seek a livelihood in the rural 2 areas."

Rural development is three dimensional in nature. As a method, it seeks people's involvement in all programmes. As a process, it seeks to modernise, through the application of science and technology, the traditionally-oriented rural cultures. Its major objective is to bring about improvement in the quality of life of rural people.

'Rural development' denotes over-all development of rural areas with a view to improving the quality of life of rural people. The concept is comprehensive and multi-dimensional in nature. It encompasses development of agricultural and allied activities, cottage and small scale industries, traditional crafts, socio-economic infrastructure, rural manpower and improvement in community services and facilities.

Rural development covers, besides agricultural development, a comprehensive set of activities, pertaining to all aspects of rural economy. It confers benefits on a number of classes like cultivators, landless labour and rural artisans.

Agriculture, in its broad sense, itself is very vast. It covers activities like horticulture, of irrigation, land development, soil and water conservation, animal husbandry, dairying, poultry, pig-farming, fishery, handloom and other village industries, social forestry and setting up of agro-based industries and forest-based industries.

But, rural development which is much more than agricultural development, ought to take into account the existing local and area-wise resources and complementary links among them. There are various classes in rural India and sometimes the relations among them may be conflicting. These conflicts have to be resolved.

Rural development requires a vast infrastructure. Provision of this is no easy task, because it has to be undertaken by the Government. Private investment in this area has been meagre and continues to be so. But the trend of meagre investments in the rural sector is gradually changing in terms of economic sustenance. However, evolving an appropriate technology for rural development is no easy task. Such a technology has to simultaneously achieve the twin objectives of raising growth rates and stepping up opportunities of employment. The setting up of appropriate institutions and co-ordinating their activities are crucial to any rural development strategy. The potential of self-reliance in rural areas needs to be exploited in a planned manner.

A single approach to rural development would not be effective. In fact, rural development is the product of inter-action between various physical, technological, economic, socio-cultural, institutional and environmental factors. Indeed, the rural sector should experience the required changes so that it can join the mainstream of national development and contribute its share for economic development. It has been rightly said, "In the end, however, rural development should not be seen as a package of specific needs but as a transformation of rural life and conditions.

7.4 OBJECTIVES OF RURAL DEVELOPMENT:

(While discussing the scope of rural development Peerzade (1981) emphasized, that rural development embraces all programmes that touch all levels of human living e.g. agriculture and related matters, irrigation, communication, education, health, supplementary employment, housing, training and social welfare."

According to ESCAP, the objectives of rural development are as under:

a) Drawing the entire rural labour force into the mainstream of economic activity.
b) Realising the creative energies of the rural people; c) Checking the drift of rural population to cities;
d) Enhancing participation of women and youths in the development process;
e) Improving the quality of life through integration between
development and environment.
f) The all-round development of the abundant manpower.)

The overall goal of rural development is to liberate the energies of the rural people, especially the poor, so that they can realise their full potential and thus improve their capacity as well as commitments to development, organise and govern themselves towards the attainment of a higher quality of life for the individual and for the entire community. The twin major objectives of rural development programme are accelerated economic growth with wider participation and most equitable distribution of is gains.

7.5 IMPORTANCE OF RURAL DEVELOPMENT

The emphasis on Rural Development (RD) in most developing countries is understandable. The majority of the population lives in the rural areas. As such, their backwardness would be retarding growth in other sectors and in the economy as a whole. The growth of towns and cities (urbanisation) will be possible, it is backed by prosperity in rural areas. Rural backwardness is the major cause for falling demand (recession) for most products. various classes in rural India and sometimes the relations among them may be conflicting. These conflicts have to be resolved.

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7.6 DEVELOPMENT OF INDIA'S ASPIRING RURAL ECONOMY – A RECENT STRATEGY

Rural development invovlves raising the socio-economic satus of the rural population on a sustainable basis through optimum utilization of local resources, thus, the focus of the government on rural development is imperative. The emphasis has been on improving the quality of life in rural areas to ensure more equitable and inclusive development. The aim of engagement of the government in the rural economy has been “transforming lives and livelihoods through proactive socio-economic inclusion, integration, and empowerment of rural India.

Various measures have been taken to enhance the quality of life in rural areas encompassing rural housing, drinking water, and sanitation, clean fuel, social protection, rural connectivity along with enhancing rural livelihoods. The financing needs of rural households and small businesses are being met through microfinance institutions, self-help groups (SHGs), and other financial intermediaries. Taking digitisation and technology to the rural economy has also been a key aspect of the rural development agenda, be it in agricultural activities or governance. A primary focus has also been on the health parameters of the rural population, with enhanced emphasis necessitated by the pandemic.

The NFHS data for 2019-21 illustrates a significant improvement vis-à-vis 2015-16 in an array of indicators concerning the quality of rural lives, including, inter alia, access to electricity, presence of improved drinking water sources, coverage under health insurance schemes, etc. Women empowerment has also gained momentum, with visible progress in female participation in household decision-making, owning bank accounts, and use of mobile phones. Most of the indicators concerning the health of rural women and children have improved. These outcome-oriented statistics establish tangible medium-run progress in rural living standards, aided by the policy focus on basic amenities and efficient programme implementation. Some of the important schemes/programmes of the Government in various areas to improve the quality of life in rural areas are detailed in the following paragraphs.

Enhancing rural incomes

(a) Deendayal Antyodaya Yojana-national rural livelihood mission (day-nrlm)

NRLM aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities resulting in sustainable and diversified livelihood options for them. This is one of the world's largest initiatives to improve the livelihoods of the poor. The Mission seeks to achieve its objective through investing in four core components viz., (a) social mobilisation and promotion and strengthening of self-managed and financially sustainable community institutions of the rural poor women; (b) financial inclusion; (c) sustainable livelihoods; and (d) social inclusion, social development, and access to entitlements through convergence.

(b) Mahatma Gandhi National Rural Employment Guarantee Scheme

The Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA) aims at enhancing the livelihood security of households in rural areas of the country by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. In case employment is not provided within 15 days from the date of registration of the demand for work or the date from which work has been demanded in case of advance applications, whichever is later, the worker is entitled to a daily unemployment allowance. A total of 5.6 crore households availed employment and a total of 225.8 crore person-days employment has been generated under the Scheme (until 6 January 2023).

(c) Deen Dayal Upadhyaya Grameen Kaushalya Yojana (ddu-gKy)

DDU-GKY is a placement-linked skill development programme for rural poor youth under the NRLM. It is a market-led, placement-linked skill development programme for providing wage employment to rural poor youth. Until 30 November 2022, a total of 13,06,851 candidates have been trained under this scheme of which 7,89,685 have got job placements.

(d)Rural Housing

Housing is one of the basic necessities, along with food and clothing. "Housing for All by 2022" was rolled out to provide shelter with dignity for each and every one. With this target, the Pradhan Mantri Awaas Yojana –Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024. Through convergence with other Government Schemes, the PMAY-G also addresses basic needs such as the construction of the toilet, piped drinking water, electricity connection, LPG gas connection, and 90/95 person-days of unskilled labour from MGNREGS. A total of 2.7 crore houses have been sanctioned and 2.1 crore houses have been completed by 6 January 2023 under the Scheme. Against the total target of completion of 52.8 lakh houses in FY23, 32.4 lakh houses have been completed.

(e) Drinking Water and Sanitation

The UN-SDG6 aims to "Ensure availability and sustainable management of water and sanitation for all." India has made considerable progress in providing drinking water and safe sanitation to urban and rural households.

(f) Jal Jeevan mission

The Government has accorded the highest priority to improve the quality of life and enhance the 'ease of living' of people, especially those living in rural areas. On the 73rd Independence Day, 15 August 2019, the Jal Jeevan Mission (JJM) was announced, to be implemented in partnership with States, to provide tap water connection to every rural household and public institutions in villages like schools, Anganwadi centres, ashram shalas (tribal residential schools), health centres, Gram Panchayat building, etc., by 2024.

(g) Mission Amrit Sarovar

Mission Amrit Sarovar was launched on National Panchayati Raj Day on 24 April 2022 with the objective to conserve water for the future. The Mission is aimed at developing and rejuvenating 75 water bodies in each district of the country during this Amrit Varsh, 75 th Years of Independence. So far, against the initial target of 50,000 Amrit Sarovar, a total of more than 93,291 Amrit Sarovar sites have been identified and works have commenced on more than 54,047 sites. Out of these commenced works, a total of more than 27,071 Amrit Sarovars have been constructed so far.

(h)Jaldoot app

JALDOOT app was launched on 27 September 2022 for measuring the water level in a Gram Panchayat through 2-3 selected open wells twice a year (pre-monsoon and post-monsoon). Gram Rojgar Sahayak is required to measure the water level and document the same at the Central server using the Jaldoot mobile app. This will enable groundwater monitoring, water budgeting, and planning for water harvesting and conservation-related works. A total of 3,66,354 wells have been measured as on 7 December 2022.

(i) Swachh bharat mission (grameen)

Swachh Bharat Mission – Grameen (SBM(G)) was launched on 2 October 2014 to ensure cleanliness in India and make it Open Defecation Free (ODF). Having achieved the ODF status in all villages in the country as of 2 October 2019, Phase-II of SBM (G) is now being implemented during FY21 to FY25, with the focus to sustain the ODF status of villages and covering all the villages with Solid and Liquid Waste Management, i.e., to convert the villages from ODF to ODF Plus. About 1,24,099 villages have been declared ODF plus till 10 November 2022 under this Mission. Andaman & Nicobar Islands has declared all its villages as ODF plusmodel, thus becoming the first Swachh, Sujal Pradesh.

(j) LPG connections

The government is continuing to support the vulnerable as commodity prices, including that of essentials, have remained volatile in the past year. This includes supporting the households with subsidised cooking fuel.

(k)Pradhan Mantri Ujjwala Yojana 2.0, Swachh Indhan Behtar Jeevan: The 'Pradhan

Mantri Ujjwala Yojana' (PMUY) was launched in May 2016 as a flagship scheme to make clean cooking fuel such as LPG available to rural and deprived households which were otherwise using traditional cooking fuels such as firewood, coal, cow-dung cakes, etc. The usage of traditional cooking fuels had detrimental impacts on the health of rural women as well as on the environment. The release of 9.5 crore LPG connections under the scheme has also helped in increasing the LPG coverage from 62 per cent on 1 May 2016 to 99.8 per cent as on 1 April 2021.

Rural Connectivity.

(l)Pradhan Mantri Gram Sadak Yojana (PMGSY)

The objective of PMGSY is to provide single all-weather road connectivity to all eligible unconnected habitations of the designated population size (500+ in plain areas, 250+ in North-Eastern and Himalayan States) in rural areas of the country. The programme also has an upgradation component for those districts, where all the eligible habitations of the designated population size have been provided all-weather road connectivity. However, upgradation is just one of the components of the programme.

The scheme has helped immensely in providing access to basic services and lifting the income of rural masses. Various independent impact evaluation studies were carried out on PMGSY, which have concluded that the scheme has had a positive impact on agriculture, health, education, urbanization, employment generation, etc.

Electricity

(m) SAUBHAGYA- Pradhan Mantri Sahaj Bijli Har Ghar Yojana

The government launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana – Saubhagya in October 2017 with the objective to achieve universal household electrification by providing electricity connections to all willing un-electrified households in rural areas and all willing poor households in urban areas in the country by March 2019. The Scheme involved the organization of camps in villages/clusters villages for on-spot registration and the release of connections. The connections were given free for economically poor households and for others `500 was charged after the release of the connection in 10 instalments. The Saubhagya scheme has been successfully completed and closed on 31 March 2022.

(n)Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)

This scheme was launched in November 2014 with the objective to improve the quality and reliability of power supply in rural areas. It envisaged the creation of basic electricity infrastructure in villages/habitations, strengthening & augmentation of existing infrastructure, and metering of existing feeders/distribution transformers/consumers to improve the quality and reliability of power supply in rural areas. Further, last-mile connectivity and free electricity connections were also provided to BPL households only identified by the States as per their list.

(o)Direct Benefit Transfer: A Game changer

The Economic Survey 2014-15 showed that although price subsidies are widely used as part of a standard toolkit by Governments in India in their anti-poverty programmes, they are often regressive, distort the markets in ways that ultimately hurt the economically weak and the leakages thereof seriously undermine the effectiveness of price as well as product subsidies. These distortions and leakages are such that they have an adverse impact on social welfare. It was recommended that the benefit that price subsidies seek to create for the poor can be directly transferred to the poor through lump-sum income transfers, avoiding the distortions that price subsidies induce. Eliminating or phasing down subsidies is neither feasible nor desirable unless accompanied by other forms of support to cushion the poor and vulnerable and enable them to achieve their economic aspirations. The JAM Number Trinity – Jan Dhan Yojana, Aadhaar and Mobile numbers – has allowed the Government to offer this support to identified households in a targeted and less distortive way in the form of DBT.

With the onset of the Covid-19 pandemic and the imposition of lockdown and enforcement of social distancing norms, the DBT ecosystem faced a tough trial and emerged as a means of relief to millions of citizens whose livelihoods were impacted. DBT played a major role in sustaining life, especially for the underprivileged segments of society, helping millions by providing immediate relief. Cash transfers under central schemes like PM-KISAN, MGNREGS, National Social Assistance Programme (NSAP), Pradhan Mantri Matru Vandana Yojana (PMMVY), NRLM, National Health Mission (NHM), scholarship schemes of various ministries through the National Scholarship Portal (NSP) and food subsidy under Pradhan Mantri Garib Kalyan Ann Yojana and Atma Nirbhar Bharat Package were a big relief for all the adversely affected masses of India during the Covid-19 period.

(p)Enhancing Rural Governance for Inclusive Growth

Good rural governance is imperative to help translate various programmes and schemes of the Government at the grassroots level, ensure equal rights to all, and achieve sustainability of rural development programmes.

Rashtriya Gram Swaraj Abhiyan

A CSS of Rashtriya Gram Swaraj Abhiyan (RGSA) was approved by the Union Cabinet in April 2018 for implementation from FY19 to FY22 with the primary aim of strengthening Panchayati Raj Institutions (PRIs) for achieving SDG's with the main thrust on convergence with Mission Antyodaya and emphasis on strengthening PRI's in the 117 Aspirational Districts. The scheme extends to all states and UTs including non-Part IX of the Constitution of India areas where Panchayats do not exist. The major focus of the scheme of RGSA was Capacity Building and Training (CB&T) to
empower PRIs and to prepare convergent Plans at the respective level of Panchayats.

SVAMITVA Scheme

SVAMITVA (Survey of Villages and Mapping with Improvised Technology in Village Areas) is a Central Sector Scheme launched on 24 April 2020, the National Panchayati Raj Day. The scheme aims to provide the 'Record of Rights' to village household owners possessing houses in inhabited rural areas. The scheme covers multifarious aspects viz. facilitating monetization of properties and enabling bank loans; reducing property-related disputes; comprehensive village-level planning, which would be the stepping-stone towards achieving Gram Swaraj in the true sense and making rural India Atmanirbhar.

7.7 URBAN DEVELOPMENT

Urbanization, the process by which large numbers of people become permanently concentrated in relatively small areas, forming cities.The definition of what constitutes a city changes from time to time and place to place, but it is most usual to explain the term as a matter of demographics. Today, some 56% of the world's population – 4.4 billion inhabitants – live in cities. This trend is expected to continue, with the urban population more than doubling its current size by 2050, at which point nearly 7 of 10 people will live in cities. With more than 80% of global GDP generated in cities, urbanization can contribute to sustainable growth through increased productivity and innovation if managed well. The population residing in urban areas in India, according to the 1901 census, was 11.4%, increasing to 28.53% by the 2001 census, and is now currently **34% in 2017** according to the

World Bank. According to a survey by the United Nations, in 2030 40.76% of country's population is expected to reside in urban areas. However, the speed and scale of urbanization brings challenges, such as meeting accelerated demand for affordable housing, viable infrastructure including transport systems, basic services, and jobs, particularly for the nearly 1 billion urban poor who live in informal settlements to be near opportunities. Rising conflicts contribute to pressure on cities as more than 50% of forcibly displaced people live in urban areas.

7.8 NATURE OF URBANIZATION IN INDIA:

India is not an exception to the world-wide trend of mass exodus of people from rural areas and their settlement in urban centres. In India the rural-urban migration began during the thirties of the twentieth century. The pace of such migration increased manifold during the post-independence period.

There is an increasing concentration of people in small, medium and large-sized towns, leading to a spatial expansion of the urban settlements. In addition, new towns centering around the setting up of new factories are coming up in increasing numbers.

Sociologists have explained the global trend towards rural-urban migration in different ways. The explanatory causes may be classed under two categories: the push factor and the pull factor. In some cases the situation in the countryside may be so inhospitable as to force people to leave their hearth and home. Sociologists characterize such factors as 'push' factors.

The people living in the countryside may also be attracted by better opportunities of employment and good living (these may also be fancied rather than real) in urban areas and decide to move out. Sociologists characterize such factors as 'pull factors'.

It is difficult to say for certain which of these factors plays a more decisive role in rural-urban migration. On the contrary, it is more probable that both the factors are responsible for influencing the decision of the people to migrate.

We may enumerate briefly the 'push' and 'pull' factors which are operative in the Indian situation. Among the 'push' factors the following are particularly important.

To begin with, man-land ratio in the countryside has changed to the disadvantage of the farmers, so that the arable land available to them has diminished considerably. This has severely restricted the scope for expansion of employment opportunities and created scarcity in food supply.

Secondly, the rate of increase of public investment in the countryside has not kept pace with the rate of increase of population. This has further aggravated the problem of food scarcity and restriction in employment opportunities.

Thirdly, expansion of primary education in the countryside, paradoxically enough, has not produced, in many cases, the desired result of benefiting 6th community and the persons who are so educated.

In traditional societies, including India, literacy is a status symbol. As such, to make a person literate has the effect of alienating him from his ancestral occupation, because literacy tends to give him the impression that manual work or farming operations are not proper calling of a literate person.

They, therefore, migrate to urban areas in search of new 'pastures'. Fourthly, farming in India provides seasonal employment. Naturally, those who are engaged in farming are forced to move to urban areas in search of odd jobs when there is not enough work in the field. In course of time, some of them stay on in the periphery of towns and cities.

Among the 'pull' factors, mention may be made of the following. In the first place, the comparative affluence and the existence of varied and numerous employment opportunities in towns and cities attract large numbers of people from the countryside.

Secondly, in the cities and towns there is heterogeneity, not simply in matters of employment, but also in patterns of recreation, in education, in modes of transportation, in styles of toughing and styles of thought as well as in kinds of stimulation. In contrast to life in the countryside which is dull, monotonous and uneventful, life in towns and cities attract people from the countryside.

Thirdly, the partition of the country on the eve of India's independence led to a mass exodus of people from East Bengal and West Punjab. Millions of uprooted people without home and jobs, for obvious reasons, preferred to stay in towns and cities proper or in the peripheries in order to eke out a living.

They had no other alternative. As a consequence, the concentration of population in cities and towns all over India, West Bengal and Punjab towns in particular, swelled all on a sudden.

Fourthly, it is pointed out that in India "family and village ties are sufficiently strong to create an obligation upon the successful migrant to help sponsor new entrants to the city".

The cumulative effect of this has been that "it (the upswing in urban ward migration) has now progressed to a point where the residents of almost every village have relatives or fellow villagers in at least one (and possibly several) of the major cities".

Western countries also experienced urbanization as a sequel to expansion and diversification of industries. But urbanization in these countries was entirely different in nature from that in India. As in India, people living in rural areas were attracted to cities and towns by the prospect of better employment opportunities and higher income. In most cases, their dreams were fulfilled.

They got jobs and were successful in increasing their income. Moreover, there were also opportunities of getting trained and acquiring necessary skills which helped them not only to make themselves employable but also to become competent and skilled factory hands. As a result, they could identify themselves completely with the urbanities and they no longer remained outsiders'.

In India the picture is just the opposite. The expectation with which the people flock in large numbers from rural areas to towns and cities remains unfulfilled in most of the cases. They fail to get jobs or to acquire the necessary skill to make themselves employable as factory hands.

They are, thus, forced to live in urban slums or in slums adjoining city areas. Physically, they might be living in cities and towns. But they do not belong to cities and towns in the sense that they do not share in the lives of city people. They do not have the necessary income to participate in various urban activities-recreational, educational and civic.

Their only goal is to earn some money and just stay alive. They have no means either to contribute to urban life of to benefit from urban amenities. Some sociologists have characterised such a situation as subsistence urbanization.

It is alarming to note that most of these people are unlikely to escape from the subsistence urbanization level of living even after a long period of stay in cities and towns.

7.9 MAIN CAUSES OF URBANISATION

Among all other reasons, a major reason for urbanization is that towns and cities have achieved a better political, economic, and social environment than rural areas. We have mentioned the **causes of Urbanisation** with a brief explanation below.

- **Industrialization:** Due to the industrial revolution many people migrated from rural areas to urban areas for better employment opportunities. Industrialization makes it easier for people to get employment opportunities and work in modern sectors which also supports economic development.
- **Commercialization:** Urban areas provide better business opportunities as compared to rural areas. The distribution of goods and services in the modern era has inspired modern marketing institutions.
- **Social benefits and services:** Urban areas provide many social benefits like better education, better sanitation, better standard of living, and health care which lead to better social life in general. Rural areas lack social benefits and services, so people are migrating to urban areas.
- **Better Employment Opportunities:** As we have mentioned above, there are ample employment opportunities in urban areas. People want better livelihoods, which is why they often move to urban areas. There are countless employment opportunities in urban areas in sectors such as education, transport, health, industry, sports, and business enterprises.
- **Modernization:** It is an important factor in the process of modernization. Urban areas are becoming more tech-savvy with highly sophisticated medical facilities, communication, knowledge, infrastructure, and other social amenities. Many people think that they can live a better life in cities. Moreover, people adopt changes in their living modes like dressing, food, habits, etc. So the number is increasing with every passing day in urban areas.
- **Rural-Urban Change:** Rural areas adopt the urban culture and eventually become urban areas, and this is called rural-urban transformation. This can see better employment opportunities, infrastructure, education, and transport in rural areas. This leads to increased productivity and economic growth.

7.10. INDIA'S GLOBAL COMMITMENTS REGARDING URBAN DEVELOPMENT:

- The SDGs Goal 11 promotes urban planning as one of the recommended methods for achieving sustainable development.
- The UN-Habitat's New Urban Agenda was adopted at Habitat III in 2016.
  - It puts forth principles for the planning, construction, development, management, and improvement of urban areas.
- The UN-Habitat (2020) suggests that the spatial conditions of a city can enhance its power to generate social, economic and environmental value and well-being.
- Paris Agreement**:** India's National Determined Contributions (NDCs) includes the goals to reduce the emission intensity of the country's GDP by 33 to 35% by 2030 from 2005 level.

7.11INDIA'S INITIATIVES FOR URBANISATION:

- Schemes/Programmes Related to Urban Development:
  - Smart Cities
  - AMRUT Mission
  - Swachh Bharat Mission-Urban
  - HRIDAY
  - Pradhan Mantri Awas Yojana-Urban
- Government Initiatives for Slum Dwellers/Urban Poor:

- Pradhan Mantri Garib Kalyan Yojana
- Atmanirbhar Bharat Abhiyan (self-reliant India)

7.12 SIGNIFICANCE OF URBAN LIVING

- **Easier Access to Facilities:** Urban living is linked with higher levels of literacy and education, better health, longer life expectancy, greater access to social services and enhanced opportunities for cultural and political participation**.**
  - Urbanisation is associated with easier access to hospitals**,** clinics and health services in general.
    - Living in proximity to these services results in improved emergency care and general health.
- **Access to Information:** There are also benefits from easier access to sources of information such as radio and television which may be used to communicate information about health to the general public.
  - For instance, women living in towns and cities are more likely to be informed about family planning which results in reduction in family size and less frequent childbirth.
- **Individualism:** Multiplicity of opportunities, social diversity, lack of familial and social control over decision making leads to more self interest and facilitates decision-making by an individual and choosing one's career and actions by oneself.

7.13 OBSTACLES FOR URBANISATION

- **Excessive Population Pressure:** On the one hand, the rural-urban migration accelerates the pace of urbanisation, on the other, it **creates** excessive population pressure on the existing public utilities.
  - Consequently, the cities suffer from the problems of slums, crime, unemployment, urban poverty, pollution, congestion, ill-health and several deviant social activities.
- **Overflowing Slums:** There are about 13.7 million slum households in the country sheltering a population of 65.49 million people across the country.
  - As much as 65% of Indian cities have adjoining slums where people live in small houses adjacent to each other.
- **Inadequate Housing:** Among the numerous social problems of urbanisation, the problem of housing is the most distressing.
  - A vast majority of urban population live under conditions of poor shelter and in highly congested spaces.
  - In India, more than half of the urban households occupy a single room, with an average occupancy per room of 4.4 persons.
- **Unplanned Development:** The model of building a developed city comprises unplanned development, which only bolsters the dichotomy prevailing in urban cities between the rich and the poor.
- **Pandemic-Induced Problems:** The Covid-19 pandemic has exacerbated the misery of urban poor or slum dwellers.
  - The sudden implementation of complete Covid lockdown severely affected the ability of slum dwellers to earn their living.
- **Non-Inclusive Welfare Schemes:** The benefits of welfare schemes for urban poor often reach only a small part of the intended beneficiaries.

- Most relief funds and benefits do not reach slum dwellers, mainly because these settlements are not officially recognised by the government.

7.14 MEASURES FOR BETTER URBANIZATION PROCESS :

- **Sustainable Urbanization for Successful Development:** As the world continues to urbanize, sustainable development depends increasingly on the successful management of urban growth, especially in low-income and lower-middle-income countries where the pace of urbanization is projected to be the fastest.
  - **Integrated policies** to improve the lives of both urban and rural dwellers are needed, while strengthening the linkages between urban and rural areas, building on their existing economic, social and environmental ties.
- **Improving Access to Health Facilities & Welfare Schemes:** Accelerating efficiency of welfare and relief schemes along with ensuring access to free vaccines, food security and adequate shelter in the slums.
  - Improving sanitation and transportation facilities in slums and establishing clinics and healthcare facilities.
  - **Aiding nonprofits and local support bodies** who have better reach to these marginalised communities.
- **New Approaches for Urbanisation:** New approaches to urban planning and effective governance are the need of the hour.
  - Necessary actions should be taken to build sustainable, robust and inclusive infrastructure.
  - Instead of a top-down approach, a bottom-up approach shall be adopted to better understand unique challenges faced by the urban poor.

7.15 KEY WORDS

1. Rural Development : Rural development actions are intended to further the social and economic development of rural communities. Rural development programs were historically top-down approaches from local or regional authorities, regional development agencies, NGOs, national governments or international development organizations.
2. **Smart City** : A smart city is a municipality that uses information and communication technologies (ICT) to increase operational efficiency, share information with the public and improve both the quality of government services and citizen welfare. While the exact definition varies, the overarching mission of a smart city is to optimize city functions and drive economic growth while improving quality of life for its citizens using smart technology and data analysis.
3. **Urbanization :** Urbanization refers to the concentration of human populations into discrete areas. This concentration leads to the transformation of land for residential, commercial, industrial and transportation purposes. It can include densely populated centers, as well as their adjacent periurban or suburban fringes.
4. **Migration**: Human migration is the movement of people from one place to another with intentions of settling, permanently or temporarily, at a new location (geographic region). The movement often occurs over long distances and from one country to another (external migration), but internal migration (within a single country) is also possible; indeed, this is the dominant form of human migration globally.

7.16. SELF ASSESSMENT QUESTIONS:

Long Answer Questions :

1. Explain the Nature and Scope of Rural Development?
2. Analyse the Strategy of Government of India of Rural Development in recent times.
3. Examine the Nature of Urban Development
4. Explain the causes for Urbanization .
5. What are the obstracles for ubranization? Suggest measures.

Short Answer Questions :

1. Obstractles for rural development
2. Importance of Rural development
3. India's initiatives for urbanization
4. Significance of Urbanization.

7.17 Suggested Readings :

1. Satya Sundaram.I., "Rural Development", Himalaya Publishing House, New Delhi, 1999

2.Lingaiah and Ranganadha Chari, "Rural Development in Inida" , Kalyani Publications, Hyderabad, 2000

3. Werner Z. Hirsch"Urban Economic Analysis", Tata McGraw Hill Publishing House, New Delhi, 1973

4. Economic Survey of Government of India, 2023.

Smt. Sk. Haseena

UNIT – 8
LABOUR MIGRATION

Aims and Objectives:

After completing the lesion the student is able to demonstrate

- ✓ What is labour migration and the types of migration
- ✓ What are the causes and consequences of migration
- ✓ What is the nature of migration and significance of migration
- ✓ What are the various measures to control rural-urban migration

Structure

8.1 Introduction
8.2 Definition
8.3 Types of Migration
8.4 Nature of Migration:
8.5 Features of Migration :
8.6 Causes of Migration.
8.7 Evil Effects of Migration.
8.8 Advantages of Migration:
8.9 Environmental consequences of migration
8.10 Significance of Migration
8.11 Measures to control Migration
8.12. Summary
8.13 Key words
8.14 Self Assessment Questions
8.15 Suggested readings

8.1 INTRODUCTION

The growth of organized industries and the evolution of an industrial proletariat are of comparatively recent origin in India. The vast majority of the population of this country has always been and is still predominantly agricultural. The two important factors that have been responsible for rural stagnation in this country are pressure of population and lack of opportunities for work in occupations other than agriculture. The structure of the working population has remained remarkably stable over the various censuses during this century and the expansion in industrial output has failed to make a notable impression on the occupational structure of the country. As distinct from India, the broadening of employment in the non-agricultural sectors in the economically advanced countries not only accounts for all fresh increases in the labour force but in addition involves transfers from agriculture to other sectors. In the case of India, on the other hand, not only the bulk of additions to the labour force continue to go to agriculture 'but of the part of additions which go to non-agricultural sectors, the share of industry has been insignificant compared to that of the service sector. This reflects the failure of the industry in India to expand to create additional employment. It is, therefore, obvious that the industrial working class in this country has been predominantly rural and largely agricultural and it is in this larger background of a greater over-erowding in agriculture and economic pressure in the village that the problems of the Indian industrial working class have to be primarily envisaged. Most of the industrial workers in the country come from the villages and many of them have retained their contact with them.

8.2 DEFINITION:

International Organization on Migration defined Migration as "An umbrella term, not defined under international law, reflecting the common lay understanding of a person who moves away from his or her place of usual residence, whether within a country or across an international border, temporarily or permanently, and for a variety of reasons. The term includes a number of well-defined legal categories of people, such as migrant workers; persons whose particular types of movements are legally-defined, such as smuggled migrants; as well as those whose status or means of movement are not specifically defined under international law, such as international students".

Britannaca defined "Migration as movement from one country, place or locality to another in search of better opportunities to settle.When people move from one place to another, the place they move from is called the Place of Origin and the place they move to is called **the** Place of Destination**.**

Hence, Migration may be defined as the movement of people from one region to another region of a state or a country by settling temporarily or permanently, for better living conditions. Most of the migrations are due to economic conditions, business opportunities, education, and employment.

8.3 TYPES OF MIGRATION

1. On the basis of Origin and destination:

In the view of the origin and destination of migrants the migration can be classified into Internal Migration and International Migration.

A) Internal Migration

The movement of individuals within the geographical boundaries of a country or a state. Internal migration alludes to a change of residence within a state, region, city, or municipality. Internal migration is additionally classified into four types.

i. **Rural to Urban Migration** The movement of population from rural areas to the nearby towns and cities mainly in search of better livelihood and standard of living, i.e., employment, education, and recreation facilities.

ii. **Rural to Rural Migration** Mostly agricultural workers, because of marriages, and sometimes looking for land for cultivation.

iii. **Urban to Urban Migration** The relocation from one metropolitan community to the next looking for more significant compensation and another market for business potential opens doors.

iv. **Urban to Rural Migration** The movement from urban areas or cities to rural areas to get freed off the urban problems like air pollution, overcrowding, noise pollution, and returning to their native place after retirement from jobs.

B) International migration

This alludes to a change of residence over national boundaries. A global migrant is somebody who moves to an alternate country. International migrants are additionally classified as

i. Legal immigrants are the individuals who moved with the lawful authority of the beneficiary country.
ii. Unlawful immigrants are individuals who moved without lawful authorization.
iii. Refugees are those who crossed a worldwide limit to get away from abuse.

2. On the basis of Time of Stay :

In view of the time of stay of migrants in the region the Migration may be classified as short term, Long term and seasonal migrations. They are detailed below:

I. **Short-term migration:** The migrants stay outside just for a brief length prior to getting back to their place. Examples: Tourists, business trips.
II. **Long-term migration:** The migrants stay outside, essentially, for a couple of years. Examples: Companies send their employees for projects and students for education.
III. **Seasonal migration:** Usually, a group of people moves from their local spots during a specific season and return after the finish of that season. Agriculture-based labor is an example of seasonal migration.

3. On the basis of readiness of Individual :

In view of the readiness of the individuals for migration the migration is classified under Voluntary and Involuntary categories.

i. **Voluntary migration:** If the movement happens on migrant choice, drive and want to reside in a good place. Example: Business company CEOs.
ii. **Involuntary migration:** If the relocation happens against the desire of migrants, it is called involuntary migration. Example: Refuges.

8.4 NATURE OF MIGRATION:

However, it has to be noted that the industrial worker, though comes from the village, is not essentially an agriculturist, who has only temporarily forsaken his agricultural work in order to add to his income by a brief spell of industrial work in the city. Only in seasonal industries, dealing largely with agricultural products, and in the mines, there is a substantial class directly interested in agriculture. In regular factory industries the employer has passed the stage of being compelled to employ only those workers who are prepared to work for a few months and go back to the village at the time of harvesting or sowing the crops.

An investigation undertaken by the Labour Investigation Committee (1946) clearly showed that the bulk of factory workers though immigrant in character, had little stake in agriculture and their occasional visits to their village homes were more for rest and recuperation than for attending to cultivation. Their interest in agriculture may be only this much that some may be members of a joint family having an agricultural holding or may have close relations actively engaged in agriculture. The turth behind the assertion of the agricultural character of the factory population is that the great majority of those employed are at heart villagers. They are born in the villages, their childhood is spent in them, they have got village traditions, many leave their families behind in their villages and even when the wife accompanies the husband to the city she is generally sent back to the village at the time of confinement.

The labourer visits his village as frequently as his financial circums tances permit, especially at the time of social ceremonies, urgent family matters, illness, repair of his house or meeting of relations, etc. Some of the workers may be even prepared to give up in- dustrial work if remunerative work can be secured in their villages, and in any case some earnestly hope to retire there permanently. Except this contact with the village, which in many cases may also he in the form of sending remittances to the family relations or to the village money-lender, the workers, in majority of the cases, continue to work in the industries for a considerable period once they join them, and cannot be called merely "birds of passage?

8.5 FEATURES OF MIGRATION :

One notable characteristic feature of the industrial labour in India has been its migratory character which indicates the absence of any permanent industrial population in the country claiming the industrial towns and cities as their homes, the majority of workers being immigrants from adjoining or remote countryside. In the advanced industrial countries of the West the factory population is permanent and completely divorced from land and is drawn mainly from amongst persons brought up in the towns and partly from amongst those who have abandoned the country for the city. On the contrary, the industrial workers in India are mostly migrants from the villages, Traditional Features of Migration: Most of the workers in industrial centres in India have been immigrants from the adjoining villages and in several cases this migration is not only inter-district but inter-State as well. Generally, the small and medium sized industrial centres have depended upon the surrounding rural areas for the supply of all unskilled labour. Big industrial cities like Bombay, Calcutta and Jamshedpur, on the other hand, draw their labour from a much wider field. In the jute mill industry in Calcutta, 80 per cent of the workers belong to Bihar, U. P., Orissa and Andhra Pradesh.

In the cotton mill industry in Bombay, labour is not only drawn from the neighbouring district of Konkan and some nearby districts but from the Deccan and U. P. also. Labour in engineering industry at Jamshedpur is drawn from Bihar, West Bengal, U. P., Punjab, Madhya Pradesh, Orissa and Madras and is now more or less permanent- ly settled at the place of work as indicated earlier. It is noticed that workers from Punjab, U. P. and Rajasthan go to Delhi during the agricultural slack season to work in the textile and engineering industries and also in the building trades. There is also some inter-State migration between U. P. and Bihar for employment in the Sugar factories.

These are some of the traditional features of migration of labour in Indian industry. The industrial working class in India, therefore, has not been a homo- geneous class-The workers drawn from all parts of the country and from all sections of the people. While there is considerable inter-district and inter-State migration in India for employment, there has been little migration overseas for this purpose except to countries such as Ceylon, Burma, Malaya, etc.

The influx of rural migrants in response to the increasing demand for labour in various new and developing industries in several Indian towns and cities has led, to a considerable extent, to a phenomenal growth of population in them. Since the beginning of the present century, the population of cities like Bombay, Calcutta, Madras, Bangalore, Kanpur, Nagpur, etc., has increased with amazing rapidity. Besides, many new towns of great industrial importance have also sprung up in the country.

8.6 CAUSES OF MIGRATION.

The causes of such migration have been manifold:

(1) Pressure of population on land : The main cause of this migration is the pressure of population not only on land but also upon the village and its resources. On the one hand, there has been an absolute increase in the population and, on the other, there has been a gradual and fast decline of the village thon died on the other there has been oviding employment to a large number of village people. Consequently, the number of dechi people depending on agriculture has increased to such an extent that the holdingswan have become uneconomic so much so that there is unemployment, poverty and indebtedness in the villages.

(2) The Joint Family system: The joint family system has also facilitated such migration as some members of a family could leave the village without having to break up their home or give up their land. Other members of the family who were left behind could conveniently take charge of these things.

(3) Increae in number of landless agricultural labour : There has been a gradual increase in the class of landless agricultural labourers which has long been in existence in this country. Some of the factors responsible for a rapid increase of numbers in this class are the loss of land on account of the accumulation of debt, the eviction of tenants because of the desire of the landlords to increase their own cultivation and the prevailing quarrels between the tenant heirs after the death of a permanent heir, These landless agricultural workers, lured by the high wages in factories, have migrated from the villages to the industrial cities.

(4) Social Reasons : The landless labourers belonging to the depressed classes gradually migrated to the cities to avoid various social disabilities. As the industrial employment tends to break down social and caste distinctions, these people receive far better social treatment in the industrial centres than in the villages. As the late Dr. Mukerjeets observed, in Uttar Pradesh about 60 per cent of the women workers belonged to the backward or untouchable castes and of the men operatives about 90 percent belonged to the depressed castes, nearly half of them being Kories.

(5)Family and moral reasons: In some people have migrated from the villages to the cities to escape various penalties for offences against the village social or moral code as well. Family worries and quarrels also compelsome villagers to migrate to cities and seek employment in the factories there.

8.7 EVIL EFFECTS OF MIGRATION.

The effects of migration of the industrial workers from the villages to the cities in India are traceable in every phase of industrial life.

1. **Differences in custons and traditions:** As the migration of these workers may be inter-district and inter-state, hence the labour population in most of the industrial centres of India has been composed of a heterogeneous class speaking different languages and following different customs and religions. The factory operative, therefore, often finds himself in an entirely new and unfamiliar environment and his life tends to become more individualistic as opposed to the community life in the village,

2. **Lack of Trade Unionism :** The migratory character of the workers in Indian industry has often prevented them from joining any permanent labour union or unions that are alien to their traditional kinds of social affiliation. The majority of the workers have not liked to pay their monthly or annual membership subscription to the existing unions or take any active part in the formation of a new union because they did not intend to live in the industrial town permanently. This tendency among the industrial workers in India has often been responsible for unhealthy growth of trade unionism in this country. The trade union is inevitably the best and socially most desirable agency to conduct bargaining with employers on be- half of the workers and as such active and strong trade unions are highly desira- ble in the interests of the workers.

3. **Absenteeism :** The migratory character of the industrial workers has also been one of the causes of frequent 'absenteeism which is largely found in Indian industries. The employers have, therefore, to maintain an additional complement of the workers or they have to employ a larger staff including the substitute workers. The cost of production is, thus, unnecessarily increased and efficient work is hampered. Moreover, the efficiency of the workers has also suffered because they are not able to get full and proper training in a particular operation due to the frequent breaks in their work owing to their occasional visits to their villages. The employers also have been unwilling and unable to impart or provide any training to the workers due to the constantly changing labour force in the factories.

4. **Evil effects due to working and living conditions :** the health of the immigrant workers is often subjected to a very heavy strain in big cities and towns. The worker in the industrial cities has to live generally in dark, narrow and congested quarters in various bustees' lacking sanitation as opposed to the huts and cottages with open air and sunshine near the fields in the villages. The factory operative has to work for long hours under strict discipline whereas in the village the work is intermittent with long hours of rest. Thus the changes in the climatic conditions and conditions of work seriously impair the health and efficiency of the workers. Then, the health of the industrial worker is also affected adversely by the extremely low quality of diet which he usually gets in the city. They cannot include the nourishing articles in their diet due to their low wages or improper foods habits. Moreover, adulteration is so common that pure milk, ghee or even curd is not available in the city.

5. **Psychological Effects :** The enforced separation from the family owing to inadequate and poor housing and excessive congestion in the industrial cities further impairs the health and efficiency of the workers. The unhealthy and unattractive housing conditions force the workers to leave their families in the villages and stay alone in the cities. This leads to a greater disparity in the ratio between the two sexes. Thus, deprived of the happy pleasures of the family life, the workers in the city easily indulge themselves in various unhealthy and immoral practices such as drinking of intoxicants, gambling and immorality. Owing to sexual immorality, which is much in vogue in the industrial areas, there has been a rapid spread of venereal diseases first in the city and later in the villages where the workers migratee. The environments in the industrial cities, therefore, have fuch adverse effect upon the health and efficiency of the workers. Thus, the social problems, apart from those indicated above, emerging from the congestion of industrial centres are no less important than the economic ones.
6. **Waste of manpowerloss :** The flow of recruited labour from the countryside of the urban centres of industry has been paralleled by a flow of indepedent job-seekers. In so far as they arrive in industrial centres without skill but with exaggerated hopes of highly paid employment, they often constitute a serious social as well as psycho-logical problem. The substitution of urban unemployment for rural underemployment usually represents a net loss to the community. Such floating migration has been responsible for psychological problems and personal disorganisation. Such movement of labour results in "wastage of manpower and undue stress from the conflicting claims of the means of livelihood on the one hand, and life itself on the other.
7. **Other Efftcts :** Labour mobility is an important advantage in the industrialization process in most of the less developed countries, but it must be purposeful mobility, from under-employment to full employment, from over-crowded rural areas to growing industrial areas, from low wage-jobs, to higher wage-jobs, from unskilled work to more skilled work. Unfortunately, in India, there is a growing disproportion bet- ween employment opportunities and labour supply in the industrial areas increa sing constantly through new influxes from the countryside. In view of the above planned efforts have to be made towards stabilisation of industrial labour. It has been aptly said that a stable labour force "connotes and co-operativeness, acquired skill and practical understanding and has value which cannot easily be measured in financial terms

8.8 ADVANTAGES OF MIGRATION:

1. This temporary character of migration has its advantages too. The village homes provide a shelter whenever the workers get into difficulties owing to illness, epidemics, strikes, unemploy- ment, disability or old age. The assurance that this shelter would always be available is a great source of strength and hope to them. In India, there is so far no comprehensive scheme of social insurance for, or State help to, the workers in times of various risks and calamities of life, and in the absence of contact with the village the plight of many workers would be miserable indeed.
2. Besides, many times the holidays taken by the workers to go to their villages enable them to maintain better health and improve their efficiency, and they come back after having good rest in natural surroundings of the village life.

3. The villages and agriculture also gain by migratory character. The factory work provides an outlet for the surplus population of the village an an the pressure of population on land is reduced. The industries serve as an insurance against the uncertainties of agriculture. The worker also sends his earnings to the village which are also utilised in the improvement of agriculture.
4. The workers bring to the village the wider knowledge and new ideas of freedom and independence which they imbibe in the towns, and on account of that, many social reforms in the villages have become possible, and the villages have been able to liberate themselves from the fetters of custom and prejudices.

8.9 ENVIRONMENTAL CONSEQUENCES OF MIGRATION

- Overcrowding of people due to rural-urban migration has put pressure on the existing social and physical infrastructure in the urban areas
- Formation of slum colonies in the middle of cities.
- Over-exploitation of natural resources.
- Metropolitan cities are facing the real problem of groundwater depletion.
- Air pollution, and emission of carbon gases due to an increase in vehicles for transportation in urban areas.
- Proper disposal of sewage will be a problem.
- Difficult in management of solid wastes.
- Land Pollution & problem of garbage disposal.
- Deforestation, cutting down the trees for expansion and construction.

8.10 SIGNIFICANCE OF MIGRATION

I. **Labour Demand and Supply**: Migration fills gaps in demand for and supply of labor, efficiently allocates skilled labor, unskilled labor, and cheap labor.

II. **Skill Development**: Migration enhances the knowledge and skills of migrants through exposure and interaction with the outside world.

III. **Quality of Life**: Migration enhances chances of employment and economic prosperity which in turn improves quality of life.

IV. **Economic Remittances**: The migrants also send extra income and remittance back home, thereby positively impacting their native place.

V. **Social Remittances**: Migration helps to improve the social life of migrants, as they learn about new cultures, customs, and languages which helps to improve brotherhood among people and ensures greater equality and tolerance.

8.11. MEASURES TO CONTROL MIGRATION:

1. The first step toward making migration manageable is to understand why people migrate. It is important to analyze the causes and then employ specific remedies to correct the situation.
2. Also there must not be regional imbalance in development. All the areas of the nation must have development opportunities.

3. The rural areas must be given special attention while development so as to retain the population which migrates to the urban areas. All the basic amenities must be provided in the rural areas.
4. Better job prospects in rural areas will surely reduce the rate of migration.
5. Suburbs and areas around the city too need to be developed to accommodate the migrant population.
6. New cities and urban centers need to be developed to push the migration in their direction instead of already established cities.
7. Planned development of these new urban areas should include plans for accommodating any further migrating population.
8. People migrate as they do not have good opportunities near their home. Good colleges, jobs, business opportunities, technology, etc. if made available can go a long way in curbing migration.
9. The current cities which are under huge pressure from migration need better planning so as to accommodate the influx of people.
10. Also, we must reduce urban bias. One must realize that opportunities have led to migration. So if we create opportunities at various places, people will migrate there too. While doing so we must ensure that the migrant people are provided with basic amenities.
11. Decentralization of responsibilities gives decision-making power to the locals who have greater understanding of their issues and so are expected to make more appropriate decisions. Thus they can implement programs to develop themselves as well their area and help curb emigration.
12. In countries like India we find that rural population is mostly engaged in agriculture. However, their next generation does not find interest and profit in agriculture and so move toward cities for better options. Developing agriculture to make it a lucrative career option can help retain this migrating youth and keep them in rural areas.
13. Also one must address issues apart from economics too. Sometimes harsh environment can force a migration. At such times we must help settle this affected population in new areas rather than already full urban areas. By better preservation of nature and mitigation of disasters we can contain migration.
14. We must maintain law and order so as to keep peace in all parts of the nation, to avoid political migration like the ones happening due to communal clashes, etc.

8.12 SUMMARY:

Now the question is: "Should efforts be directed towards build- ing up an industrial population divorced from the villages, or should the contact with the villages be maintained and stimulated?" The Royal Commission on Labour held the view that no wholesale or sudden change in the existing system was practicable. To quote from the Report: "Whatever view is reached industry must depend for a long time on the villages and the tenacity with which many industrial workers with little encouragement have retained their village connections shows that the system has deep roots. Our considered opinion is that in present circumstances the link with the village is a distinct asset, and that the general aim should be not to undermine it but to encourage it, and as far as possible, to regularize it."

8.13 KEY WORDS

1. **Rural-to-urban migration**: It is when people move, either temporarily or permanently, from a rural area to an urban city. Rural-to-urban migration occurs at both the national and international level, but internal or national migration takes place at a higher rate.

2. **Commuters:** A person who travels some distance to work on a regular basis.

3. **Refugee:** A refugee is someone who has been forced to flee his or her country because of persecution, war or violence.

8.14 SELF ASSESSMENT QUESTIONS

Essay type questions

1. Define Migration. Explain the various reasons for Migration
2. What are the evil effects of Migation
3. What is the Nature of Migration? Examine the features of Migration.
4. Explain the various measures to control rural-urban migration.

Short Answer:

1. Types of Migration.
2. Advantages of Migration
3. Environmental effects of Migration
4. Significance of Migration

8.15 SUGGESTED READINGS

1. Bhagoliwal. T.N., “Economics of Labour and Industrial relations”, Sahitya Bhavan, 1984
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Smt. Sk. Haseena

LESSON – 9
INDIAN AGRICULTURAL SCENARIO

Aims and Objectives

- To learn about the importance and features of agricultural sector in Indian Economy
- To analyse the different strategies and policies of agriculture in India
- To analyse the agrarian crisis in India
- To understand about the land reforms in Indian agriculture
- To analyse the agricultural credit conditions in India
- To study the minimum support prices in Indian agriculture

Structure

9.1 Introduction
9.2 Importance of Agricultural Sector in Indian economy
9.3 Features of Indian Agricultural Sector
9.4 Strategies and Policies of Indian Agriculture
9.5 National Agricultural Policy in India 2000
9.6 Agrarian Crisis in India
9.7 Land Reforms in Indian Agriculture
9.8 Agricultural Credit in India
9.9 Minimum Support Prices in Indian Agriculture
9.10 Summary
9.11 Key Words
9.12 Self-Assessment Questions
9.13 Suggested Readings

9.1 INTRODUCTION

Everything else can wait, but not the agriculture.
---Jawaharlal Nehru

Agriculture is management of land, plants and livestock for the purpose of human needs. Agricultural sector comprises broadly four sub-sectors such as crop, livestock, fishing & aquaculture and forestry & logging. Agriculture is the primary sector in an economy as it provides to basic food to the people and raw material to the other sectors of the economy. Agricultural sector is considered as backbone to Indian economy as it provides employment to the majority people about 50 per cent, contributes significant share in national income about 15 per cent and influences other two sectors – industry and service in the economy through its strong backward and forward linkages. Development of Agriculture is also important in India to promote welfare and alleviate poverty as majority of the poor lives in this sector and bring structural transformation of the economy by reducing the dependency on agriculture.

In this background, this chapter studies the scenario of agricultural sector in the Indian economy in terms of many aspects such as its importance and features, strategies and policies,agrarian crisis, land reforms and their effects, credit conditions and implementation of minimum support prices.

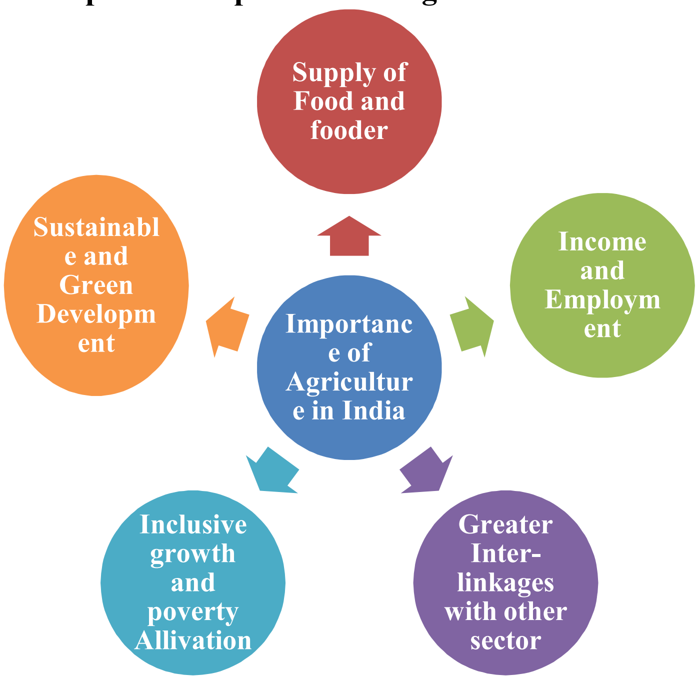
9.2 IMPORTANCE OF AGRICULTURAL SECTOR IN INDIAN ECONOMY

Agricultural sector is the primary sector and it is back bone to Indian economy. The agricultural sector has strong backward and forward linkages in the Indian economy. When agricultural sector sneezes, the other two sectors would cough and vice versa. The importance of agriculture sector in Indian economy can be explained in the following aspects as given in Figure - 1

i. Supplying the Food and Fodder: Agriculture sector is the only sector that supplies food grains and fodder to the whole population and animals in the country. Currently Indian agriculture produces 315.7 Million Tons of food grains with per capita availability of 187.8 KGs per year. But majority of it are rice and wheat but not the nutritional rich grains such as pulses and coarse cereals.

ii. Income and Employment: Agricultural sector is important in India as it provides significant shares to the income and employment. It contributes about 20 per cent share in Gross Value Added in 2022-23 at current price. It is still the largest employment provider in the country of 45.5 per cent during 2021-22. Hence development of agricultural sector is important for the growth and development of the whole economy.

Figure 1: Important aspect for importance of Agriculture in India



iii. Greater inter-linkages in the economy: The importance of agricultural sector in Indian economy lies in its grater linkages with other sectors. Agricultural sector provides raw material and labour to the industrial sector. Agriculture also creates demand for the goods produced by the industry. Similarly, agriculture provides labour to the service sector and creates the demand for the services created by the service sector. The crisis or prosperity in agricultural sector greatly impacts the other two sectors in Indian economy. Hence growth and development of agricultural sector is key for the performance of whole economy in India.

iv. Inclusive growth and poverty alleviation: Agricultural sector is important in India to ensure inclusive growth and alleviate poverty in the country. Agricultural sector in Indian being the largest employment provider but low per capita income and greater inter linkages with other sectors, it is important to achieve inclusive growth in the country. Majority of the poor population in India lives in agricultural sector and more than 80 per cent of the farmers are small holders. Hence growth and development of agricultural sector in India is crucial for reducing the poverty.

v. Sustainable and Green Development: Agricultural sector is important in Indian economy to achieve the sustainable and green development. Currently, agriculture in India depends on chemical fertilisers and pesticides which pollute the natural resources and food products. Agriculture sector is also large contributor for greenhouse gases. To adopt sustainable and green development in the country, agriculture is the main source.

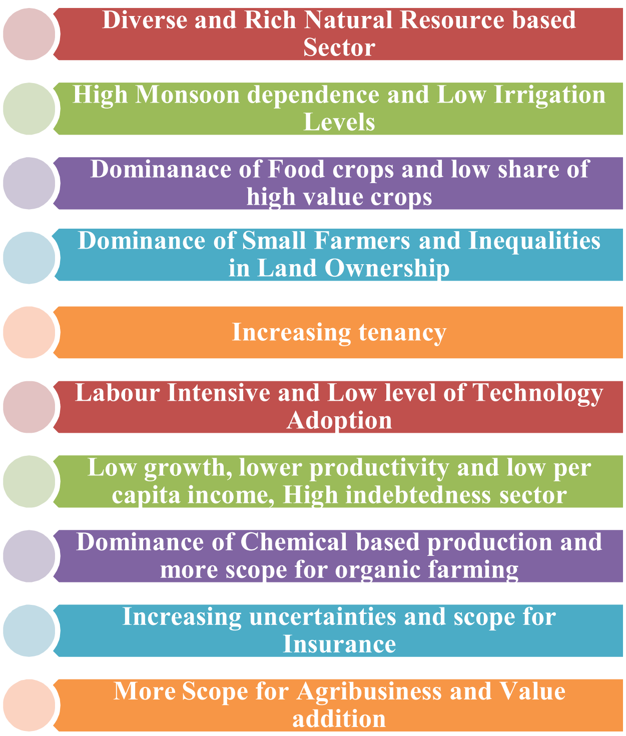
9.3 FEATURES OF AGRICULTURAL SECTOR IN INDIA

Indian agriculture, given its vast agro climatic condition, is large and diverse sector. It has been undergoing many changes since the Independence. The salient features of Indian Agriculture can be explained in Figure 2 in the following aspects

i. Diverse and Rich Natural Resource based Sector:

India has second largest arable land in the world next to USA with 145 million hectors of net sown area under agriculture which is 42.5 per cent of total geographical area. India has 15 Agro-climatic zones and 73 subzones based on soil types, topography, and climate and cropping pattern characteristics. Hence India has the scope for the cultivation of largest number of crops and livestock in the agriculture. It is a vast and diverse sector based on rich natural resources. As a result India is considered as a global agricultural powerhouse. India is the world's **largest producer** of milk, pulses and jute, goat, buffalo and ranks as the **second largest producer** of rice, wheat, sugarcane, groundnut, tobacco, potato, vegetables, fruit and cotton, cattle and sheep. It is also one of the leading producers of spices, fish, poultry, livestock and plantation crops (FAO 2023).

Figure 2: Salient Features of Indian Agriculture



ii. Monsoonal dependence and Low Irrigation Levels: Indian agricultural is based on performances of monsoons. Although, the irrigation levels are increasing over a period of time in India (18 per cent in 1951 to 37 per cent in 1991 to 57 per cent in 2020), they fluctuate as per the performances of the monsoons. As result, the share of assured irrigation is very low in India and its agriculture becomes gamble in the hands of monsoons.

iii. Dominance of Food crops: Indian agriculture is dominated by the few food crops and the diversification is still low towards the high value added crops. Around 60 per cent are food crops. The low value food crops like rice, wheat, coarse cereals dominate the majority of crop production in India while the high value crops like fruits, vegetables, sugar cane, cotton etc are still at lower levels.

iv. Dominance of Small Farmers and Inequalities in Land Ownership: The land based inequalities are very high in Indian agriculture. As per latest Agricultural Census 2015-16, out of total land holdings of 146.5 million with the area of 157.8 million hectors in India,the small size farmers (below two hectors) comprises of 88 per cent. But they own only 47 per cent of total land. On the other hand medium and big farmer farmers whose share is 12 per cent in total landholding but controls 53 per cent of the total land. There are social and gender in inequalities in land ownership in India. The farmers belong to schedule caste are around 12 per cent in total farmers but possess 8.5 per cent of land ownership. The female ownership of land stands at about 14 per cent in India which is far behind their population.

v. Increasing Tenancy:

Tenancy has been increasing at faster rate in Indian agriculture. The official reported tenancy is very low than the actual tenancy because of problems in tenancy acts. As the tenant will have rights over land with the registration of tenancy, most of the tenancy is unreported in India. As per un official figures, the tenancy may have up to 50 per cent of total area. Majority of the tenancy in India is practiced by the farmers belong to socially marginal groups like OBCs and SCs.

vi. Labour Intensive and Low level of Technology Adoption

Indian agriculture still followlabour intensive practices but it is on declining path with increasing scarcity of labour and adoption of technology. The adoption of modern technology is still at lower phase mainly because of dominance of small size farmers and lack of institutional support.

vii. Low growth, lower productivity and low per capita income, High indebtedness sector:

Indian agriculture records relatively lower growth compare to other two sectors with wide fluctuations. As per NITI Aayog reports, during 2004-05 to 2020-21, the average annual growth of agriculture sector in India stands at 3.8 per cent while for non-agricultural sector it stands at 6.9 per cent. The fluctuations are very high in agricultural growth rates in India.

The productivity of crops in India, although increasing over a period, still they are less than the world average and far behind the top countries. The FAO 2023 figures show that the productivity if rice in India is 4138 KG per hector which is less than world average 4717 KG per hector and far behind China, the top producer 7303 Kg per hector. Similar is the case with wheat, maize and pulses.

The income levels for the agricultural households are still very low in India due to low yield levels and lack of non-farm jobs. The for the Situation Assessment Survey of Agricultural Households (SASAH) 2019, the average monthly income for an agricultural household stands at Rs10218 for 2018-19 which is far below the incomes of other sectors. NITI Aayog report says that the ratio of agricultural worker to non-agricultural worker stands at 0.29 during 2020-21 which indicates that an average agricultural worker gets only 29 per cent of income that that of non-agricultural worker.The indebtedness levels are also very high in Indian agriculture. As per SASAH 2019, total 50.2 per cent of farmers in India are indebted with average outstanding of Rs 74,121 per household.

viii. Dominance of Chemical based production and more scope for Organic and Natural Farming:

The chemical based farming is highly prevalent in India especially since the advent Green Revolution during 1970s. Agriculture is responsible for about 17 per cent of GHG emission in India, which is almost same as its share in gross domestic product (GDP). It has led to many environmental problems in agriculture such as soil degradation, water pollution, food contamination, crop diseases which all are leading to further fall in crop yields. Hence there has been increasing stress on shifting towards organic farming but it is still at low phase. There is an increasing preference for bio-based products for producing alternative sources of energy.

ix. Increasing uncertainties and scope for Insurance:

There has been increasing uncertainties in Indian agriculture mainly because of two things such as weather based fluctuations due to climate change and market based price fluctuations due to lack of support mechanism. In this context there is large scope for the crop insurance which is at very low levels. The SASAH 2019 shows that only around 10 to 20 per cent of the farmers insure their crops

x. More Scope for Agribusiness and Value addition

There is lot of scope for Agribusiness and value addition in Indian agriculture. Most of the farmers sell their products without processing and adding value main because of lack of storing facilities, awareness, skills, technological and financial support.

9.4 AGRICULTURAL STRATEGIES IN INDIA

Agricultural strategy is planning and implementing a new way of doing things for the growth and development of agricultural sector. More specifically it is new methods of managing agriculture to raise productivities and production and improve the income and living conditions of the people depending on it.

The following are the important agricultural strategies followed in India since Independence shown in Figure 3.

Figure 3: Agricultural Strategies followed in India since Independence

1. Land Refroms
2. Green Revolution
3. Agricultural Price Support through MSP and PDS
4. Diversification of Agriculture: Towards Non-Crop Sector and High Value Crops
5. Trade Liberalisation for Agricultural Products
6. Agriculutral Marketing and Agribusniess
7. Provision of Subsidised Credit and Investment Support to Individual Farmers
8. Promition of Sustainable Agriculture through Organic and Natural Farming

i. Land Reforms

Land reform is the act of bringing structural changes in ownership, leasing and use of land for the purpose of agriculture. Land reforms was the first agricultural strategy adopted in Independent India for the growth and development of the sector. Land reforms were aimed at rearranging the land relations in the country for the redistribution of land to the actual tiller to increase the productivity of the land. This also was considered as an instrument of social justice. The land reforms were actually carried out since 1950s by the State governments as the land is the subject of the State. The land reforms were carried out through four important measures such as

a) Abolition of intermediaries in the zamindari, mahalwari and raitwari systems of land revenue.
b) Tenancy reforms in the forms of security of tenure, maximum ceiling on land rent and conferment of ownership rights to the tenant.
c) Ceiling on land holdings owned by a family and distribution of surplus land to the land less poor
d) Consolidation of landholding and cooperative farming for reaping the benefits of economies of scale and increase productivity.
e) Maintaining and updating of land records

Except in few states like West Bengal, Kerala and erstwhile Jammu& Kashmir, the land reforms were partially successful in India. It was successful only in the first measure of abolition of intermediaries but not up to the mark in case of rest of the measures. The details of land reforms can be found in section 9.5 of this chapter.

ii. Green Revolution

Green Revolution was the major strategy for addressing the immediate need of food crisis during 1960s and long term growth and development of agricultural sector in India. India faced severe food shortages during 1950s and 1960s and had to import food grains from USA under PL480 program under which India has to compromise its foreign policy. To overcome this, India on the recommendations of Ford Foundation, under the leadership of Dr. M.S. Swaminathan had adopted the new agricultural strategy to grow more food grains, especially wheat and rice, in selected agriculturally developed regions under the Intensive Agricultural Area Program (IAAP). Next this was extended to potential 114 selected districtsunder the Intensive Agriculture District Programme (IADP). Both the IAAP and the IADP were based on the 'big push' theory of economic development.

The main objective of the new strategy of Green revolution was to achieve self-sufficiency in food grains by providing access to farmers the necessary modern inputs and services such as HYV seeds, chemical fertilizers and modern irrigation and tractors. Within a short span of time, the wheat revolution spread over the entire North India and tremendously increased the production and productivity of wheat crop. Later on, a similar revolution occurred in rice crop.

The Green Revolution helped to transform the Indian economy from a state of food deficient country to a food surplus one. However, the benefits of the GR technology did not reached to all the crops, regions and farmers. It also created many environmental problems.

Hence there were efforts for Second and Ever Green Revolution during 2000s as per the recommendations of National Commission on Farmers 2005 to spread the Green Revolution to the dry land agriculture and to small farmers and to achieve the long-term productive growth in agriculture with ecological balance.

iii. Agricultural Price Support System through MSP and PDS

Agricultural price support through the systems of MSP and PDS is an important strategy in the growth and development of the agricultural sector in India since 1960s.India's

Agricultural Price Policy is aimed at protecting the interests of Indian farmers by guaranteeing the Minimum Support Price for their agricultural products so that they continue investing in agriculture. The system of minimum support prices (MSP), which was started in 1965 for wheat, now covers 24 crops (barring sugarcane) based on the advice of Commission for Agricultural Costs and Prices (CACP). The Union Government announces a fair and remunerative price (FRP) for sugarcane, which is a statutory minimum price. The system of guaranteed prices to producers has been implemented through procurement by public agencies such as FCI, CCI, JCI, NAFED, Tobacco Board, etc., for which the MSPs are fixed. For commodities not covered under PSS, Government also arranges for market intervention on specific request from the States for specific quantity at a mutually agreed price. The procured food grains under MSP are used for distributing them through Public Distribution System (PDS).

iv. Diversification of Agriculture

Diversification of agriculture is another important strategy followed for the growth and development of agricultural sector in India especially during the post reforms period since 1990s. Diversification of agriculture is done at two levels such as crop diversification and diversification towards allied activities.

a. Diversification toward allied sectors: The composition of agricultural sector changes over a period of time from crop sector to allied sectors especially during post reforms period. The NITI Aayog report shows that during 2011-12 and 2020-22, the share of crop sector with in total agriculture sector has declined from 65 per cent to 55 per cent. This change was contributed more by the dairy, livestock and fisheries during this period.

b. Crop Diversification: Crop diversification means instead of cultivating only few crops like rice and wheat, cultivating more number of crops especially the high value based commercial crops and horticultural crops. There has been a trend towards from food grain to non-food grain based crops in Indian Agriculture. The NABARD data shows that the area under food grain crops has declined from 75 per cent to 63 per cent from 1970-91 to 2020-21. Similarly the area under non-food and horticulture crops has increased during this period.

v. Trade Liberalisation for Agricultural Products

Liberalisation of agricultural trade is another strategy of agriculture India. Through WTO agreements on agriculture in 1990s, the agricultural trade in both export and imports in India was liberalized to large extent with some occasional restrictions. There is now strong integration of the domestic market with global markets and changes in global prices in agricultural sector. As a result, Agri exports (7 per cent) and imports (3.5 per cent) constitute more than 10 per cent of total production in the country during 2022-23.

vi. Agricultural Marketing and Agribusiness

Establishment and strengthening of marketing system is important strategy for the growth and development of agricultural sector in India. In order to secure remunerative prices to the producers of agricultural and horticultural commodities, the central as well as the state governments have been taking various steps followed was i) encouraging and supporting establishment of cooperative marketing societies/ federations. ii) establishment of regulated markets and forward trading, iii) establishment of storage and warehousing facilities, and iv) implementation of price support and market intervention schemes. Implementation of e-NAM for online marketing, establishment of separate Union Cooperative Ministry are important steps in this direction.

Promotion of Agribusiness in India is also another important strategy. Under this, value addition to the agricultural products is done through processing, grading, marketing, branding etc. Several schemes like Mega Food Park, PradhanMantriKisan SAMPADA Yojana

(PMKSY), the Prime Minister's Formalisation of Micro Food Processing Enterprises (PMFME) are important initiatives in this direction.

vii. Provision Credit and Investment Support to Individual Farmers

Provision of enhanced subsidized credit and investment support directly to the famers is the another strategy in Indian agriculture. Ensuring hassle-free credit availability at a cheaper rate to farmers has been the top priority of the Government of India. Accordingly, the Kisan Credit Card Scheme (KCC) was introduced in 1998 for farmers to empower them to purchase agricultural products and services on credit at any time. To ensure that the farmers pay a minimal interest rate to the banks, the Government of India has introduced the Interest Subvention Scheme (ISS), now renamed Modified Interest Subvention Scheme (MISS), to provide short-term credit to farmers at subsidised interest rates. An additional 3 per cent subvention (Prompt Repayment Incentive) is also given to the farmers for prompt and timely repayment of loans. Therefore, if a farmer repays his loan on time, he gets credit at 4 per cent per annum.

In order to supplement the other supports, Government also directly provides investment support under PMKISSAN scheme an annual amount of Rs 6000 to all the marginal and small farmers in the country since 2019. This is being supplanted by the state governments like RaithuBharosa of Rs 7500 per farmers in Andhra Pradesh, RaithuBhandu of Rs 10,000 per acre in Telangana and KALIYA of Rs 10,000 per family per year in Odisha.

viii. Sustainable Agriculture through Organic and Natural Farming

Sustainable Agriculture in the form of Organic Farming and Natural Farming is current strategy of agricultural sector in India in order to overcome the ill effects of chemical based agriculture and also to address the current growing demand for chemical-free organic agricultural products. About 59.1 lakh hector area was brought under organic farming by 2021-22 in India. The states of Sikkim, Tripura and Uttarakhand are leading states in this direction. Government promotes organic and natural farming through its various schemes like Paramparagat KrishiVikasYojana (PKVY) and Mission Organic Value Chain Development for North Eastern Region (MOVCDNER) since 2015 through cluster/ Farmer Producer Organisations (FPOs) formation.

Every strategy that was discussed above was evolved based on the need of the time. Among all the agricultural strategies followed in India, the land reforms and green revolution were most important in influencing the growth and development of agricultural sector. Currently, it is the mix of different strategies like diversification towards allied sector, trade liberalization, agricultural marketing and agribusiness, support to individual farmers and sustainable development are followed in India.

9.5 AGRICULTURAL POLICY IN INDIA

Formulation of Agricultural Policy is important in an economy to take stock of the situation of the sector and formulate targets and approaches to achieve them for the growth and development of the sector. India’s first ever National Agriculture Policy (NAP) was announced in July, 2000. This policy was formulated in the context of relatively poor growth of agriculture experienced during the 1990s. The Policy seeks to actualise the vast untapped potential of Indian agriculture.

9.5.1 Objectives of NAP 2000:

i. Achieving a growth rate above 4 per cent per annum in the agricultural sector
ii. Efficient use of resources and for conservation of our soil, water and bio-diversity
iii. Growth with equity where growth would be widespread across regions and different classes of farmers

iv. Demand-driven approach of growth in agriculture and cater to the need of domestic markets and ensuring maximization of benefit from exports of agricultural products in the face of challenges from economic liberalization and globalization

v. Make the growth sustainable in terms of environment and economical.

vi. Introduce economically viable, technically sound, environmentally non-degrading and non-hazardous and socially acceptable use of natural resources of the country for promoting the concept of sustainable agriculture.

9.5.2: Measures under NAP 2000: In order to fulfill these objectives, the following measures are suggested in the national agricultural policy 2000.

i. To use unutilized barren wastelands for agriculture and afforestation.

ii. To contain biotic pressures on land and to control indiscriminate division of agricultural lands for non-agricultural uses.

iii. To enhance cropping intensity through multi-cropping and inter-cropping.

iv. To emphasize rational use of ground and surface water so that over-exploitation of ground water resources can be checked. To adopt better technologies such as drip and sprinkler irrigation system so as to arrange more economic and efficient use of water.

v. To adopt vigorously a long-term perspective plan for sustainable rain-fed agriculture by adopting watershed approach and water harvesting method for development of two-thirds of cropped area of the country which is dependent on rainfall.

vi. Involvement of farmers and landless labourers will be sought in the development of pastures/ forestry programmes on huge public wasteland by providing adequate financial incentives and entitlement of trees and pastures.

vii. To encourage application of biotechnology, remote sensing technologies, energy saving technologies, pre- and post-harvest technologies, and technology for environmental protection.

viii. To step up public investment for narrowing regional imbalances and also for accelerating development of supportive infrastructure.

ix. To encourage private sector investment in agriculture in some sophisticated areas like agricultural research, post-harvest management, marketingand human resource development.

x. To take up the next level of land reforms in the form of consolidation of holdings, redistribution of ceiling surplus lands and waste-lands, adopting tenancy reforms for recognizing the rights of tenants and sharecroppers, promotion and development of lease markets for raising the size of holdings by making legal provisions so as to give private land on lease for cultivation and agro-business purposes, promotion of contract farming, recognizing the rights of women on land and updating and improvement of land records through computerization and also by issuing land pass books to all the farmers.

9.5.3. Critical Evaluation of the New Agricultural Policy 2000:

The New Agricultural Policy (2000) was good enough to identify the problems in Indian agriculture by 2000 and kept high level objectives. But it has not spelt out any specific strategy to be followed to realize them. It relied more on private sector rather than public sector in capital investment in agricultural sector. There was a lack of co-ordination between the Central and State Governments in implementing various promotional steps for the development of agricultural sector.

After two decade of the formulation of National Agricultural Policy, it achievement has mixed results. The agricultural growth has picked up. But there are many concerns in terms of increasing productivity and income of the farmers, environmental degradation, agrarian crisis, regional and crop disparities etc. In order to overcome these concerns, there is need for new national agricultural policy to direct the sector in the age of 4.0 industry digital era.

9.6 AGRARIAN CRISIS

Princes and Lords may flourish or may fade,
A breath can make them, as a breath has made;
But a bold peasantry, a country's pride
Once destroyed can never be supplied.

----- **Oliver Goldsmith**

Agrarian crisis is the situation where agricultural sector is undergoing deep rooted problems where both production and incomes are falling and the livelihoods of its dependents are threatened. Indian Agriculture since the down of Independence has crossed many milestones during its journey of last 75 years. It has achieved self-sufficiency in food production and significantly reducing its GDP share and dependency. However the sector is not free from the problems. It has undergone many ups and downs. Currently, Indian agriculture has been witnessing crisis in many forms. Agrarian crisis in India is more evident during the post-reforms period since 1990. It is said that agricultural production in the country has increasing but the real income of the farmer has not been increasing to that level and s/he is trapped in indebtness. It is similar to saying that 'operation is successful but the patient is dead'.

9.6.1:The forms of agrarian crisis in India: The symptom of agrarian crisis in India can be witnessed in many forms such farmers' suicides, farmers' indebtedness, low level of income to the farmers and agricultural labour, increasing volatility in growth rates, stagnation in crop yield, decreasing profitability, slow and low levels of diversification, increasing pauperization in the form of rise of share of agricultural workers than cultivators, farmers protests across the country etc. The details of these are discussed below

i. **Farmers' Suicides:** The most important symptom of agrarian crisis in current India is the situation of farmers' suicides. The data released by several reports of NCRB, Accidental Deaths and Suicides in India shows that around 14 per cent of total suicides in India are from farmers. During the period of 1997-2022, about 3 lakhs farmers have committed have suicides. Most of these farmers' suicides are owed to indebtedness as the results of consecutive negative returns due to failure of crops or failure to get remunerative output prices than input cost.

ii. Farmers' Indebtedness: The indebtedness is the situation where farmers unable to repay their loans as the result of fall in incomes. The Situation Assessment Survey of Agricultural Households 2019 shows that more than 50 per cent of agricultural households are indebted. This was used to be more than 70 per cent during 2012. The average outstanding debt per agricultural household stands at Rs 74121/- during 2019.

iii. **Low Income Levels to Agricultural Dependents:**The people who depend on agricultural sector in India comprises 45 percent of total employment but only 20 per cent of national income during 2021-22 which reflect very low level of income to the people who depend on agriculture. The Situation Assessment Survey of Agricultural Households 2019 shows that the average monthly income for an agricultural household in India stands at Rs 10218/- which is far lower than the income to households in non-agricultural sector. NITI Aayog report says that thethe income ratio of agricultural worker to non-agricultural worker stands at 0.29 during 2020-21 which indicates that an average agricultural worker gets only 29 per cent of income that that of non-agricultural worker.

iv. Increasing Volatility in Agricultural Growth: The Indian agricultural sector witness is highly fluctuating growth rates in India indicating high risk nature. During last decade period 2012-2022, the annual growth of agricultural sector in India has fluctuated from -0.2 per cent in 2014-15 to 6.2 per cent in 2019-20 and to 3.3 in 2022-23. These fluctuations are mainly due to monsoonal performance and market price fluctuations. The effect of climate change in recent times has further accentuated the volatility of growth rates in agricultural sector.

v. Stagnation in Crop Yield Growth Rates: The yield of major crops in India which have shown higher growth rates during 1970s and 1980s,gradually started declining and even stagnation in some crops during the rest of the periods. The NABARD report shows that the growth rates of food grains were 3.18 during 1981-1990 but started declined to 1.87 per cent during 1991-2000, 1.80 per cent during 2001-2010 and to 1.59 during 2011-2020. Cotton has registered even negative yield growth rates during last two decades. There are yield gaps in many crops in India.

vi. Farmers' protest for Remunerative Crop Output Prices and against ongoing agrarian crisis: Farmers in India have been protesting during last half decade for the remunerative prices for their produce. They demand for hike in MSP based on Swaminathan Commission Report and provide legal security to MSP. Their demand also include waiver of farm loan to save them from the indebtedness.

vii. Environmental Degradation and Climate Change: Indian agriculture is facing several environment related problems like overexploitation of ground water leading to fall in ground water tables, water-logging leading to the build-up of salts in the soils in some irrigated areas. Soil erosion and soil degradation are other important problems. Extreme events like droughts, floods, erratic rains are occurring frequently. These all effect the yield rates.

9.6.2 Reasons for Agrarian Crisis in India: Agrarian crisis in India is the result of multiple reasons which are as follows

i. Fall in Capital formation in Agricultural Sector: Capital formation is very low in Agricultural sector in India and it has been falling during the post reforms period. This effects the growth rates in the sector. The NABARD report shows that the Gross Capital Formation (GCF) including public and private sectors in Indian Agricultural sector as the share of total AgriGDP has declined from 18.23 per cent in 20211-12 to 16 per cent in 2020-21. This is witnessed in both public and private sectors GCFs. The share of public sector GCF in Agriculture is very low and it has declined from 2.38 per cent in 2011-12 to 2.28 per cent in 2020-21.

ii. Inadequate and insufficient Irrigation Facilities and Greater weather fluctuations: Indian agriculture is still is Monsoonal dependent sector. The fluctuations in the monsoon cause fluctuations in the performances of agricultural sector too. The irrigation facilities although have been improving over the period but it is not sufficient.

iii. Imbalances in input Costs and Output prices: The major reason for the agrarian crisis in India is fast rise in inputs costs on one side and slow rise in output price on the other side. The Report of Ashok Dalwai Committee on Doubling Farmers' Income in India in 2017 & 2018 reported that the net income from the cultivation of many crops has declined and turned out to be negative in many statesduring the period 2004-05 to 2013-14. This was because of fast rise input cost than the output value. The terms of trade (TOT) was also not in favourof agriculture in this period. These results imply that despite an increase in the overall agricultural output, the proportionate rise in input costs has not helped improve the output – input ratio over time.

iv. Inadequate marketing facilities and lack of remunerative prices for the agricultural output: Although, there have been improvement in marketing facilities for agricultural sector in India over a period in terms of physical market yards, online marketing platforms e-NAM, real time digital information about the crop output to the farmers, there are many gaps and problems which need to be fixed in. As a result the prices for the agricultural product are highly fluctuating resulting into high risk in the agricultural marketing in India. The government measure of MSP to the major crops is also not sufficient to cover the full cost of the crops and its procurement is done only rice and wheat and in few states like Punjab, Hayana, MP etc.

v. **Inadequate Risk Management System in Agriculture:** The risk management system in Indian agriculture is not adequate to support the farmers. The crop insurance system is still at minimum level. The Situation Assessment Survey of Agricultural Households 2019 reveal that about 40 per cent of farmers cultivating rice and wheat in India experience crop loss but only about 8 per cent of them insure their crops. About 40 per cent of the farmers are not aware of the insurance and about 25 per cent feel that no use of crop insurance as there is remote chance to get claim of insurance in the event of crop loss. Apart from this pre-production risk, there is also post production risk in agriculture in terms of marketing, storage, processing, logistics etc.

9.6.3. Measures to Address the Agrarian Crisis: Presently, agrarian sector in India requires comprehensive and multipronged strategies to provide solutions to the ongoing agrarian crisis. Government of India and the respective State government have been implementing several programs and schemes to address the present agrarian crisis in India. The following are the important suggestions and government measures.

i. Complete the unfinished agenda of land reforms in identifying the surplus land and redistribute it to the landless poor and working agricultural labor.
ii. Improving the growth rates of crop yields by developing the HYV seeds
iii. Implementation of MSP to crops based on C2 cost (Paid and Implicit cost) system and provision of legal sanctity for the system. But currently the Central Government gives MSP to 23 crops based on the formula of 50 per cent over and above A2 Cost (total paid-out cost) plus imputed value of owned labour.
iv. Enhancing the risk management and proper implementation of crop insurance. Central Government implements Pradhana Mantri Fasal BheemaYojana (PMFBY) with minimum premium rates and it is implemented with zero premium in Andhra Pradesh under YSR Crop Insurance Scheme.
v. Enhancement subsidized institutional credit to agricultural sector to relieve the farmers from indebtedness. Currently the central government gives the interest subvention of 3 per cent.
vi. Adoption of climate change to suit the local conditions of the state. Under National Action Plan on Climate change of 8 types, Central government brought the Action Plan that focuses on ten key dimensions encompassing Indian agriculture namely; 'Improved crop seeds, livestock and fish cultures', 'Water Use Efficiency', 'Pest Management', 'Improved Farm Practices', 'Nutrient Management', 'Agricultural insurance', 'Credit support', 'Markets', 'Access to Information' and 'Livelihood diversification'. During XII Five Year Plan, these measures are being embedded and mainstreamed onto ongoing/proposed Missions/ programmes / Schemes of Central Government.

   There is also need for promotion of Zero based natural farming and sustainable agriculture. For this, the central government has started Paramparagat Krishi Vikas Yojana that promotes cluster based organic farming with PGS (Participatory Guarantee System) certification.
vii. Use of farmer friendly and efficient technology

viii. Promotion of diversity towards high value crops like fruits and vegetable and to allied activities like dairy, fisheries, mushroom cultivation

ix. Promotion of group approach among farmers like Farmers' Producers' organization and cooperative farming. Central government has started scheme of Formation and Promotion of 10000 FPOs in the country.

x. Investment support to the small and marginal farmers. Central Government implements PMKISSAN to provide investment support of Rs 6000 per annum to every small farmer in India.

9.7 LAND REFORMS

Land reforms were the first agricultural strategy adopted in Independent India for the growth and development of the sector. Land reforms were aimed at rearranging the land relations in the country for the redistribution of land to the actual tiller to increase the productivity of the land. This also was considered as an instrument of social justice. The land reforms were actually carried out by the State governments as the land is the subject of the State.

9.7.1: The Components of Land Reforms: There were five components of the land reforms such as abolition of intermediaries, tenancy reforms, ceiling on land holdings and consolidation of landholding and cooperative farming and compilation and updating of land records. The details of these are discussed below.

i. Abolition of intermediary tenures: The British period land revenue systems such as Zaminadari, Raitwari, Mahalwari were abolished by the respective state acts during 1950. With this act, the vast mass of the peasantry was freed from all illegal exactions in cash, kind and services; Land records were created and survey and settlement was carried out in these areas and Holdings were demarcated on the basis of the individual as a unit.

By 1954 almost every state had passed Land Reform legislation on priority basis for the abolition of intermediary tenures on payment of compensation, as a result of which 20 million tenants were brought into direct contact with the state. However, in the name of land under self-cultivation, many of the old landlords were able to retain extensive areas under their control.

ii. Tenancy Reforms: Tenancy is the relationship between the land owner and the tenant regarding the use of the leased-in land. Tenancy reforms was carried out in all the states in three ways as (a) Security of Tenure for certain period with few exceptions (b) ceiling on land rent which should not exceed one-fifth to one-fourth of the gross produce and (c) conferment of ownership rights in case of sale of land by the owners. Although all the state have passed these reforms but their implementation on the ground was very poor because of reluctance of the owners to record the tenancy because of the fear of loosing the land. Hence now Central government is pushing for the liberalization of tenancy acts in the country.

iii. Ceiling of land holdings and distribution of surplus land: According to this maximum ceiling was imposed on ownership of an household and the surplus land from the ceiling, was to be redistributed among the landless poor. As per the Central government guidelines in 1972, all the state governments have passed these acts but with very poor implementation. As per this the maximum land ceiling rules, an household of five members can own maximum up to 10 to 18 acres of irrigated land and up to 54 acres of non-irrigated land which may vary across the states based on their local conditions. But there are exceptions under clauses of modern mechanized farms and plantation farms.

The implementation of this aspect of land reforms was very poor because of *binami* land transfer of land ownership and mis-utilization of exceptions. At the end of the Eighth Plan

(1992-97), only 2.30 million hectares were declared as ceiling surplus and out of that 2.09 million hectares were distributed among 5.5 million beneficiaries.

iv. Consolidation of land holdings: Consolidation of land holding means facilitating the land owner who has the land at different sides in an area into small parts, to get the same size or quality of land at on place with the adjustments of land among the similar kind of land owners. This was pushed under cooperative farming model. Consolidation of fragmented land holdings helps in improving the agricultural production as well as in providing common services to small holders. Although this measure of land reforms is ideal one, but it was grossly failed in its implementation on the ground because lack of cooperation among the land owners, problems in nature and quality of lands, lack of support from the governments etc. Hence, as on 31 March 2003, the total area consolidated was only 66.10 million hectares, against a total cultivable area of 142 million hectares.

v. Compilation and updating of land records: Proper land records are important for the effective implementation of land reforms and support to the farmers. However, land record system is very poor in India. In 1987-88, a Centrally-sponsored scheme for Strengthening of Revenue Administration and Updating of Land Records (SRA&ULR) was introduced in Orissa and Bihar. The scheme was extended to other states in 1989-90. The Ministry of Rural Development (MoRD) brought out a Vision Document for Computerisation of Land Records in 1999 to bring uniformity in land administration. The National Land Record Modernisation Program (NLRMP) was launched in 2008 as central sponsored scheme. Later it was revamped as the Digital India Land Record Modernisation Program as 100 per cent centrally funded program. Andhra Pradesh and Telangana governments are in the forefront in implementing this schemes under their flagship programs YSR Jagananna Saswatha Bhu Hakku and Bhu Raksha programme and Telangana Comprehensive Land Survey program respectively.

9.7.2: Assessment of Land Reforms in India: The above discussion shows that, the land reforms were partially successful in India. It was successful only in the first measure of abolition of intermediaries but not up to the mark in case of rest of the measures. As a result, we could witness large scale socio-economic inequalities in land ownership, lack of recognition and support for tenant farmers and land disputes in the country which dent the productivity of land. It is said that the states of West Bengal, Kerala and the old Jammu & Kashmir were the relatively better implementation of land reforms in the country. The economic reforms since 1991 have sidelined the agenda of land reforms in India and it is no more political –economic agenda in the country. Only the aspect of land records is given emphasis than others to facilitate the private property rights and access to benefits related to land ownership.

9.8 AGRICULTURAL CREDIT IN INDIA

Agricultural credit is providing credit to the farmers for timely operation of their agricultural activities like input procurement, cultivation, marketing etc. Credit in the form of loans is used as working capital at the beginning of the growing season, as also at later stages of production & harvesting in order to purchase material inputs, prepare land or invest in farm machinery, as well for the harvest, processing, transporting and marketing the produce. Access to credit also allows a farmer the leeway to take risk, at every stage of the business including during marketing of the output. Access to adequate and timely credit from formal sources is crucial for farmers to upgrade and sanction their enterprise by managing the various inputs needed to achieve higher agricultural productivity. Ashok Dalwai Committee 2018 notes that output elasticity of farm credit in India is significant and positive; roughly for every 1 per cent increase in agricultural credit, there will be 0.29 per cent increase in agricultural GDP and consequently aiding increased income.

9.8.1 The types of Agricultural Credit: The agriculture credit can be broadly divided into two types based time period and its use.

i. Credit based on Time: Based on time the credit can be divided in tow types such as short term and long term. a) Short term credit is the credit which is given for one year or below. This is used for procuring routine agricultural inputs like seed, fertilizers, pesticides, rent, labour wages and any other maintenance expenses. b) Long term credit is the credit which is given for more than one year. Generally this long term credit to agriculture is used for capital investment like land leveling, digging wells, machines, buildings, storages etc. Currently, out of the total institutional credit for agriculture in India, about 30 per cent is under long terms credit and about 70 per cent is under short term credit. There is need for rise in long term credit.

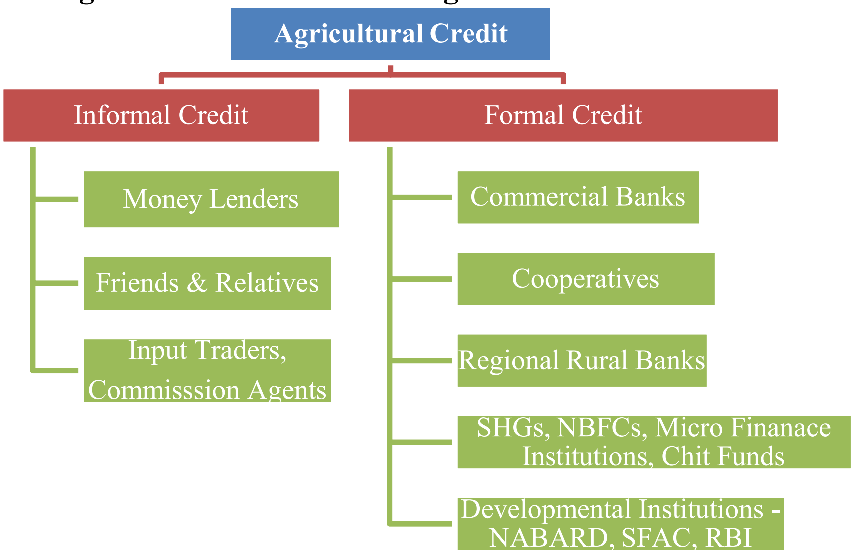
ii. Credit Based on Source: Based on the source, the agricultural credit can be broadly classified into two types such as non-institutional and institutional. a) Non- institutional credit is the credit which is sourced from informal sources like the money lenders, friends, relatives etc with or without documents. Generally the annual rate of interest for this type of credit will be very high varying from 18 per cent to 36 per cent or even higher. b) Institutional credit is the credit which is sourced from formal sources like banks, NBFCs, cooperatives, NBFCs, MFIs, Chit Funds, NGOs etc. The interest rates are generally low in these formal institutions.

9.8.2 Structure of Agricultural Credit System in India: The agricultural credit structure is based on both institutional and non-institutional sources as shown in Figure 4. Among non-institutional sources the money lenders, friends, relatives are important one. Among institutional sources the important sources are Commercial Bank, Cooperative Banks and Regional Rural Banks (RRBs). Other sources like like SHGs, NBFCs, MFIs, Chit Funds etc are significant for the short term purposes. Apart from these all, there are specialized developmental institutions like National Bank for Agriculture and Rural Development (NABARD), Small Farmers Agricultural Consortium (SFAC) and Reserve Bank of India support agricultural credit through other institutions directly or indirectly.

NABARD: The National Bank for Agriculture and Rural Development (NABARD), established on July 12, 1982, is an apex development bank with the primary objective of promoting sustainable and equitable agriculture and rural development across the country. NABARD operates under the aegis of the Reserve Bank of India (RBI). NABARD extends financial assistance to a wide range of stakeholders, including farmers, cooperatives, rural entrepreneurs, and financial institutions involved in rural development. The institution also acts as a catalyst for innovations and technology adoption in the agricultural sector, contributing to increased productivity and sustainable practices.

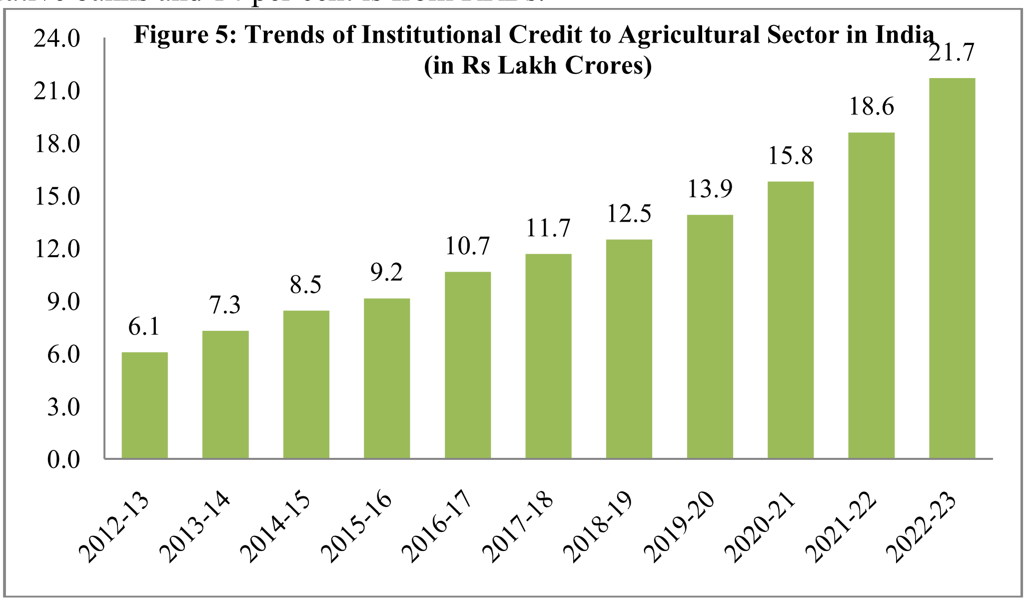
The Situation Assessment Survey of Agricultural Households in India 2019 reports that out of the total loan outstanding by the agricultural households in India, about 70 per cent is from formal institutional loans such as commercial banks (44.5 per cent), RRBs (8 per cent), Cooperatives (10.6 per cent) and SHGs & others (6.4 per cent). About 30 per cent loan is from informal non-institutional sources such as Money lenders (20.5 per cent), relatives and friends (5.7 per cent) and others (4.5 Per cent).

Figure 4: The Structure of Agricultural Credit in India



9.8.3 Flow of Institutional Credit to Agricultural Sector in India

The amount of institutional credit for agricultural sector has been increasing in India during the recent period with the efforts by the governments. As per the latest data of NABARD shown in Figure5, the total agricultural ground level credit that includes both crop loan and term loan in India has tremendously increased by more than three folds during the last decade i.e. from Rs 6.1 lakh crores during 2012-13 to Rs 21.7 lakh crores during 2022-23. At the same time the share of agricultural GDP in total GDP is falling. There has been gradual rise in share of commercial banks in total agricultural institutional credit in India with corresponding fall in share by Cooperative banks. Out of the total institutional credit during 2022-23, about 74 per cent is sourced from commercial banks, 12 per cent is from Rural Cooperative banks and 14 per cent is from RRBs.



Source: NABARD 2023

9.8.4 Disparities in Institutional Credit to Agriculture in India

The institutional credit to agricultural sector witness many disparities across the states and the farm size groups. NABARD report shows that the average credit disbursement per farmer in

India during 2019-20 is Rs.102482. It is Rs.71034 for small farmers. There are state variations in India. Agricultural credit to gross value added from agriculture ratio was quite high in case of Kerala (324%), Tamil Nadu (267%), and Telangana (129 %) while it was very low in the States of Madhya Pradesh (28%), West Bengal (40%), Chhattisgarh (42%) and Uttar Pradesh (47%).

There are disparities across the farm size groups. Commercial banks lend 47 per cent of their total farm credit to the small and marginal farmers against their share of 75 per cent in total loan accounts. Cooperative Banks and RRBs are lending 69.7 per cent and 65.4 per cent, respectively of their total lending to small and marginal farmers in the country. There is need for improvement in credit to small and marginal farmers in India as per their share in accounts and land.

9.8.5. Problems in Agricultural Credit in India: The flow of investment credit to agriculture sector in India is constrained by host of factors. The details of them are as follows.

i. Small & Marginal Farmers (SMF) face many constraints in access to institutional credit mainly because of division and fragmentation of land ownership, the absence of proper titles or Record of Rights (ROR) for their land.

ii. Tenant farmers hardly get the institutional credit despite of several efforts in some states like Andhra Pradesh and Telangana by issuing Crop Cultivators Right Cards (CCRCs).

iii. There is a misuse and diversion of agricultural credit in several states.

iv. There is a delay or non-payment of interest subsidy on the agricultural loans to farmers both by central and state governments.

9.8.6. Measures for Strengthening the Credit to Agricultural Sector in India: Both central and state governments have been taking many initiatives to enhance the credit to agricultural sector in India which are as follows.

i. Kissan Credit Card (KCC) scheme was introduced for strengthening for flexible and timely access and use of credit by the farmers.

ii. Provision of interest subsidy on crop loans under Interest Subvention Scheme (ISS).

iii. Promotion of Joint Liability Groups (JLGs) as the medium for financing landless farmers, tenant farmers, sharecroppers and oral lessees.

iii. Promotion of Farmers' Producer Organisations (FPOs) in agricultural credit to help in overcoming the challenges of high transaction costs, security stipulations of loans and also support smallholders in gaining access to markets, public services, better price etc., through collective action. Producers Organisation Development and Upliftment Corpus Fund (PRODUCE) was set up in NABARD with a corpus of Rs 200 crore for promotion and nurturing of 2,000 FPOs through financial and non-financial support. SFAC also has been promoting FPOs

iv. NABARD also encourages the establishment of Rural Agricultural Startups by providing Venture Capital Fund (VCF). Recently it has allotted Rs 700 crore for this purpose through its subsidiary Nabventures.

Interest Subvention Scheme: Government of India has introduced the Interest Subvention Scheme (ISS) now renamed Modified Interest Subvention Scheme (MISS) to provide short-term credit to farmers at subsidised interest rates and to ensure that the farmers pay a minimal interest rate to the banks. It has been started during Kahriff 2006-07 and it is being implemeted by NABARD and RBI. Under this scheme, short-term agriculture loan up to ₹3 lakh is available at 7 per cent per annum to farmers engaged in Agriculture and other Allied activities, including Animal Husbandry, Dairying, Poultry, Fisheries etc. An additional 3 per cent subvention (Prompt Repayment Incentive) is also given to the farmers for prompt and timely repayment of loans. Therefore, if a farmer repays his loan on time, he gets credit at 4 per cent per annum.

Kisan Credit Card Scheme: The Kissan Credit Card (KCC) scheme was launched in 1998 with the aim of providing short-term formal credit to farmers. Owner cultivators, as well as tenant farmers, can avail loans to meet their agricultural needs under this scheme at attractive rates of interest. RBI monitors it for SCBs and NABARD monitors the scheme with respect to Cooperative Banks and RRBs. Now Cooperative sector are under RBI. Budget 2018-19 extended this provision to Animal Husbandry and Fisheries.

9.9 MINIMUM SUPPORT PRICES IN INDIAN AGRICULTURE

Minimum support price (MSP) is the minimum price for the crop output announced by the government at the beginning of cultivation to encourage the farmers to cultivate the farmers by offering remunerative price to their output irrespective of market prices. MSPis the part of agricultural price policy in India which has been implemented since 1965.Initially it was started for wheat and rice and now it is announced for covers 24 crops (barring sugarcane). The Union Government announces a fair and remunerative price (FRP) for sugarcane, which is a statutory minimum price.

9.9.1 Objectives of MSP based Agricultural Price policy in India: The following are the important objectives of MSP based agricultural price policy in India.

i. To provide remunerative prices to the agricultural products based on their input cost as advised by the Commission for Agricultural Costs and Prices (CACP)
ii. To stabilize the price of agricultural products without market fluctuations so that farmers can take decisions to invest in crops which are given price assurance.
iii. To effect the income distribution in favor of farmers by fixing the minimum prices and procurement of agricultural
iv. To ensure the food security in the country by providing the food grains to the public at the subsidized rates

9.9.2: Role of CACP in Agricultural pricing policy and MSP in India:

In 1965 the Government of India constituted the Agricultural Prices Commission. The commission was to advise the government on “the price policy of agricultural commodities with a view to evolving a balanced and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the producers and the consumers”.

To balance the agricultural Pricing policy between the producers and the consumers, the government to renamed Agricultural Prices Commission as Commission for Agricultural Costs and Prices (CACP) in the year 1985, the emphasis now being more on costs.

Currently the CACP advises the central government on Minimum Support Prices(MSP) for 24 crops. The CACP while recommending prices takes into account important factors i) Cost of production ii) Changes in input prices iii) Input/Output price parity iv) Trends in market prices v) Inter-crop price parity vi) Demand and supply situation vii) Effect on industrial cost structure viii) Effect on general price level ix) Effect on cost of living x) International market price situation xi) Parity between prices paid and prices received by farmers (terms of trade).

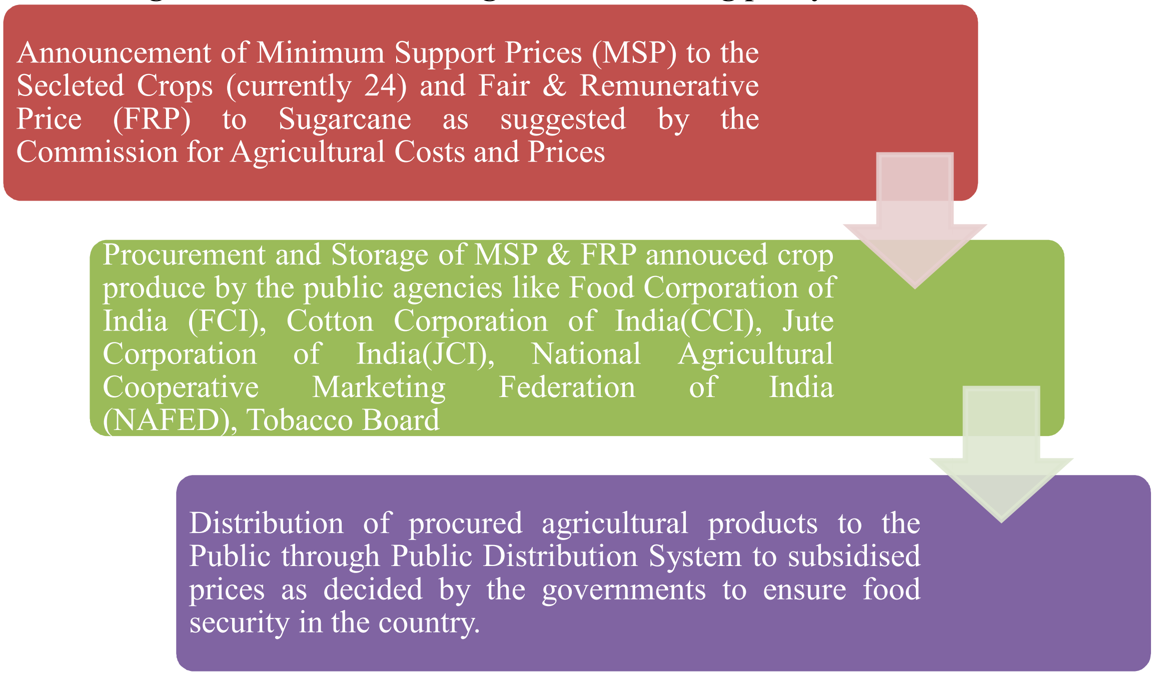
Currently, the central Government would announce the MSP for the crops as a margin of at least 50 per cent over A2 cost (all paid out costs) plus the imputed value of family labour. The state governments may add bonus over and above the central government MSP as per their local conditions.

9.9.3. Implementation of MSP in India

The framework for implementation of MSP is shown in Figure 6. The government after announcing the MSP for the designated crops, it will procure the crops at announced MSP.

The procurement is done by public agencies such as FCI, CCI, JCI, NAFED, Tobacco Board, etc.

Figure 6: Framework of Agricultural Pricing policy and MSP in India



9.9.4. The problems related to Agricultural Price Policy and MSP in India: The following are the important present problems related Agricultural Price Policy and MSP in India

i. The Issue of Cost to announce MSP: Currently the base for MSP is A2 cost (all paid out costs) plus the imputed value of family labour. But it covers only all the paid out costs for factors of the a crops and imputed cost for owned agricultural labour. But the farmers demand the MSP as per the National Commission on Farmers recommendation chaired by MS Swaminathan that it should be equal to 50 per cent above the C2 cost which covers all the paid cost and imputed cost of own labour, own land and own capital.

ii. Issue of Procurement based on MSP: The governments are serious in announcing the MSP for the crops but they are not serious in procurement of crops based on this announced MSP. MSP is not fruitful unless followed by procurement of crops when ever the market price is less than the MSP.

iii. Legal Guarantee for MSP and Procurement: Currently, there is no legal guarantee for the system of MSP and Procurement for agricultural produce in the country and it depends on the discretion and feasibilities of the Governments. Hence the farmers demand for legal guarantee for MSP and Procurement for agricultural produce for its effective implementation.

iv. Lack of Awareness about MSP and Its Procurement: Despite of its long implementation, MSP and its procurement of several crops is known to very few farmers in India. The Situation Assessment of Agricultural Households in India 2019 reports shows that in case of important crop – Paddy, only about 40 per cent of the farmers are aware about MSP, 30 per cent are aware of procurement agency under MSP and only 14.5 per cent sold their produce to the procurement agency under MSP. These figures further low in case of other crops in India.

v. Concentration of MSP Based procurement is done for few crops and in few states: Currently, the MSP based procurement is done for mostly rice and wheat and it is done in few states. The figures by Department of Food and Public Distribution reveal that three states

(Madhya Pradesh, Punjab, and Haryana) producing 46% of the wheat in the country account for 85% of its procurement during 2019-20. For rice, six states (Punjab, Telangana, Andhra Pradesh, Chhattisgarh, Odisha, and Haryana) with 40% of the production have 74% share in procurement for the same period.

9.10 SUMMARY

Agricultural sector is the important in Indian economy not only supplying food products but also contributing the significant share in national income and highest share in employment. The sector having the greater backward and forward linkages with other sectors in the economy, any prosperity or problem in this sector will have similar impact on the performance of the whole economy. Indian agriculture has undergone many changes since Independence from food deficit to food surplus. It has many bright spots as well as dark spots in its journey. The strategy of Green Revolution in 1960s and 70s has been successful in raising the food grain production in the country to the sufficient levels. Other strategies such as land reforms, price policy through MSP and PDS, marketing, crop diversification, trade liberalization, subsidized credit, investment support and promotion of sustainable agriculture has been partially successful. As a result the current situation is Indian agriculture is that the sector is prospering in terms of production but the farmer is in crisis and trapped in indebtedness. Land reforms has been successful only to that extent of abolition of intermediaries but not in case of others land ceiling, distribution of surplus land, tenancy reforms, consolidation of land holdings and updating of land records. In case of agricultural credit in India, there has been a tremendous improvement in the flow of credit but there are problems in terms of credit to small and marginal farmers, tenant farmers, credit to log term capital investment purpose and covering all the regions in the states. Promotion of Joint Liability Groups and Farmers Producers Organisation can strengthen agricultural credit flow and its repayment in future. The system of minimum support price to the crop output in India has mixed results. Despite of its greater coverage to 24 crops, their concerns regarding its inadequacy of prices, cost methodologies, procurement which all have lead the Indian farmers to fight for its legal guarantee.

To conclude, the agricultural sector in India has marched half journey in its path for economic development. One side it has to produce sufficient and quality food products and other outputs in a sustainable manner with environment protection. On the other side it has to lift its dependent - farmers and workers out of indebtedness and poverty by ensuring the decent income and living standard. The group approach with cooperative principles by all the stake holders – farmers, agricultural workers, government and private sector could be the best strategy for holistic development of Indian agricultural sector.

9.11 KEYWORDS

i. Agriculture: Agriculture is management of land, plants and livestock for the purpose of human needs. Agricultural sector comprises broadly four sub-sectors such as crop, livestock, fishing & aquaculture and forestry & logging.

ii. Agricultural Strategy: Agricultural strategy is planning and implementing a new way of doing things in agriculture to raise productivities and production and improve the income and living conditions of the people depending on it. India has been following many agricultural strategies since its independence such as land reforms, green revolution, marketing, diversification, liberalizing foreign trade, investment support, organic farming etc.

iii. Land Reforms: Land reform is the act of bringing structural changes in ownership, leasing and use of land for the purpose of agriculture. India implemented land reforms in the form of abolition of intermediaries, land ceiling, distribution of surplus land, tenancy reforms, consolidation of land holdings and updating of land records.

iv. Green Revolution: Green revolution is increasing the crop productivities and production by introducing new technologies. Green revolution was implemented in India during 196os by new technologies like HYV seeds, chemical fertilizers, and irrigation development. It has transformed the country from food deficit state to food surplus state. But it has many problems in term of its coverage in crops, farm size and regions and environmental damage.

v. **Agrarian Crisis:** Agrarian crisis is the situation where agricultural sector is undergoing deep rooted problems where both production and incomes are falling and the livelihoods of its dependents are threatened. Indian agriculture has been facing crisis where stagnation in crop yield growth, imbalances in cost and revenue of crop output, fall in the real income level, farmers indebtedness and suicides too.

vi. Agricultural Credit: Agricultural credit is providing credit to the farmers for timely operation of their agricultural activities like input procurement, cultivation, marketing etc. The flow of agricultural credit from the formal sources like commercial banks, cooperatives, RRBs has been increasing over period. But there are problems in its coverage to small farmers, backward regions.

vii. Minimum support price (MSP): MSP is the minimum price for the crop output announced by the government at the beginning of cultivation to encourage the farmers to cultivate the farmers by offering remunerative price to their output irrespective of market prices. MSP is the part of agricultural price policy in India which has been implemented since 1965.Initially it was started for wheat and rice and now it is announced for covers 24 crops.

9.12 SELF-ASSESSMENT QUESTIONS

1. Is agricultural sector still a backbone to current Indian economy? Give your view.
2. Analyse the salient feature of Indian agricultural sector.
3. Briefly explain different strategies followed for the development of Indian agricultural sector.
4. Discuss the National Agricultural Policy in India 2000.
5. Identify different forms of agrarian crisis in current Indian economy and provide your own solutions to it.
6. Do you think that the Land Reforms is in India is still an unfinished agenda? Defend.
7. Discuss the current status and problems in agricultural credit in India.
8. ‘MSP policy in Indian agriculture is seen only on paper but not in reality’ Explain.

9.113 Suggested Readings

1. "Indian Economy" by Ramesh Singh, McGraw Hill Publishers.
2. "Indian Economy: Performance and Policies" by Uma Kapila, Academic Foundation Publishers, New Delhi.
3. "Indian Economy" by Datt and Mahajan, S. Chand Publications.
4. "Indian Economy" by Puri, Mishra and Garg, Himalaya Publishers.
5. Various reports of "Economic Survey of India", Govt of India.
6. Open source material from eGyanKosh by IGNOU, Khan Academy etc. https://egyankosh.ac.in/.

Dr.Ch. Shankar Rao

LESSON – 10

FOOD SECURITY AND MALNUTRITION IN INDIA

Aims and Objectives:

- To learn the concepts, institutional mechanism and status of Food Security in India
- To analyse the problems and measures for food security system in Indian economy
- To learn the concepts and status of Malnutrition in India
- To analyse the conditions of malnutrition and its measures in India economy

Structure

10.1 Introduction

10.2 Food Security

10.2.1 Concepts of Food Security

10.2.2 Status of Food Security in India

10.2.3 Institutional Mechanism to ensure Food Security in India

10.2.4. Problems of Food Security in India

10.2.5. Schemes for Food Security in India

10.3 Malnutrition

10.3.1 Concepts of Malnutrition

10.3.3 Status of Malnutrition in India

10.3.4 Causes of Malnutrition in India

10.3.5 Measures to address the problem of malnutrition in India

10.4 Summary

10.5 Key Words

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10.7 Suggested Readings

10.1 INTRODUCTION

"For the poor the economic is the spiritual. You cannot make any other appeal to those starving millions. It will fall flat on them. But you take food to them and they will regard you as their God. They are incapable of any other thought….According to me the economic constitution of India and, for the matter of that, the world should be such that no one under it should suffer from want of food and clothing. In other words, everybody should be able to get sufficient work to enable him to make two ends meet."

------ Mahatma Gandhi

Food is important inputs for the survival of human being. Good food brings good health to the human whose health is important for the development and wellbeing of humans. Hence there is a need for food security in an economy. Thanks to Green Revolutions in Agricultural sector, Indian Economy has transformed the country from 'ship to mouth' or food shortage and food importing country during 1950 & 1960s into food surplus and food exporting country during post Green Revolution period since 197Os till now. Although the physical availability of food grains has increased in the country, there have been several issues of food security in terms of access to food grains and nutritional food products to different sections of the people in the country. Hunger and starvation still persist among the poorer sections of the population. The NFHS-5 data of 2019-21 reveal that the malnutrition levels among children and women in India are at alarming levels. There is an urgent need to address the problems in food security and remove malnutrition in India.The issues of Food security and malnutrition are included in UNO's 17 Global Sustainable Development Goals (SDG) under SDG 2 that is Zero Hunger to be achieved by 2030.In this context, this chapter studies the concept of food security, functioning of food security system in India. Similarly this chapter also studies concepts of malnutrition and conditions and measures for malnutrition in India.

10.2 FOOD SECURITY

Food security means making food available at affordable prices at all times, to all sections of people, without interruptions. Food security is not only a question of the ability to produce food but also of the ability to access food. Lack of food security hampers the nutritional profile of the vulnerable section of the population. Food security in a country can be seen from many dimensions and hence there are many concepts this regard.

10.2.1 Concepts of Food Security

a. Concepts based on production of food products: There are two types of food security concepts based on the production of food grains with in the country such as Food Self-Sufficiency and Food Self-Reliance.

i. Food Self-Sufficiency: Food Self-sufficiency of country refers to situation where a country is in a position to feed its people from its own domestic production without having to depend on import of food grains from other countries. India has achieved food self-sufficiency by 1970s after Green Revolution period.

ii. Food Self-Reliance: Food Self-reliance of country refers to situation where a country need to have its domestic food grain production to feed its people, but is has the ability and purchasing power to import the required food grain from other countries. The countries like Singapore which has scarcity of land follow this concept of food self-reliance. However, it is risky to follow this concept of food security during war situations.

b. **Concepts based on availability, accessibility, affordability and nutritional levels of food:** Food security can be studies in fours concepts such as food availability of total food grains, food accessibility, food affordability and nutritional food.

i. Food Availability refers to availability of physical quantity of food grain production with in a country as a whole, imports and buffer stocks with FCI which are sufficient to feed its entire population.

ii. Food Accessibility refers to the food shall be made available with in the reach of the people either through market or public distribution system or any other mechanism

iii. Food Affordability refers to ability to buy the food grains by all the sections of the population in the country at affordable prices.

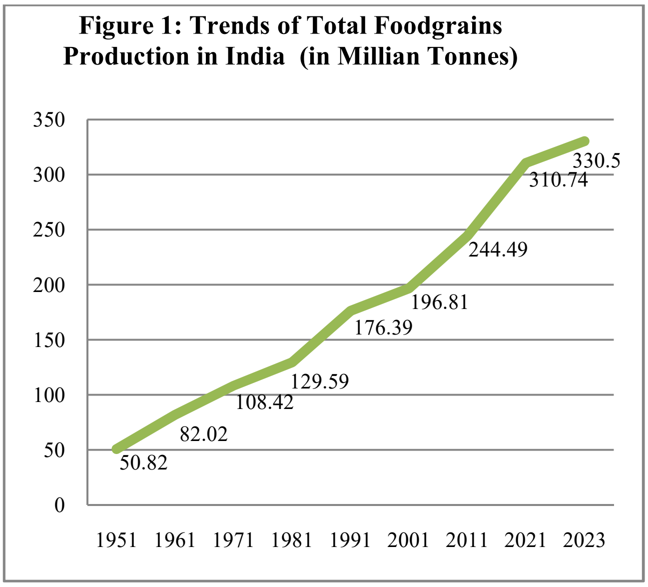
iv. Nutritional food security refers to availability and access of food products in the country not in few varieties but in all the varieties of food products with high nutritional values. The food products of coarse cereals, pulses, fruits, vegetables and meat have higher nutritional values than rice and wheat. Hence nutritional food security requires the availability and accesses of those all food products in sufficient combinations.

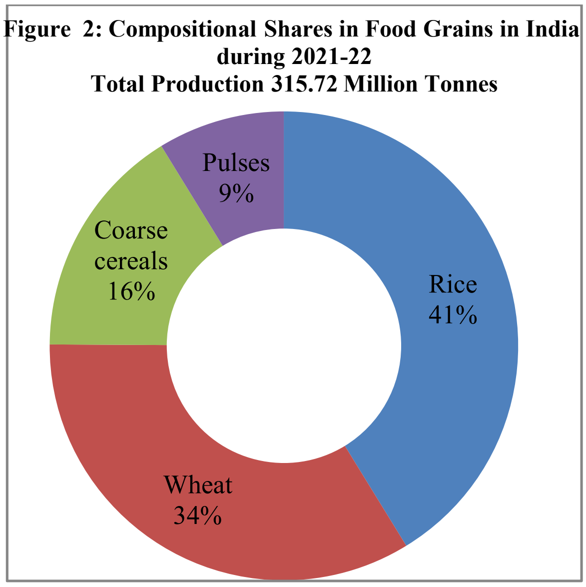
The effective food security system in a country should have all the concepts such as availability, access and minimum errors or universal food security scheme.

10.2.2Status of Food Security in India

The status of food security has improved in India only in terms of physical availability, thanks to initiatives during Green Revolution during 1960s. The total food grains which consists of rice, wheat, coarse cereals and pulses in India has increased by more than six folds in India from 50.8 Million Tonnes in 1951 to 330.5 Million Tonnes in 2023 (Figure 1).

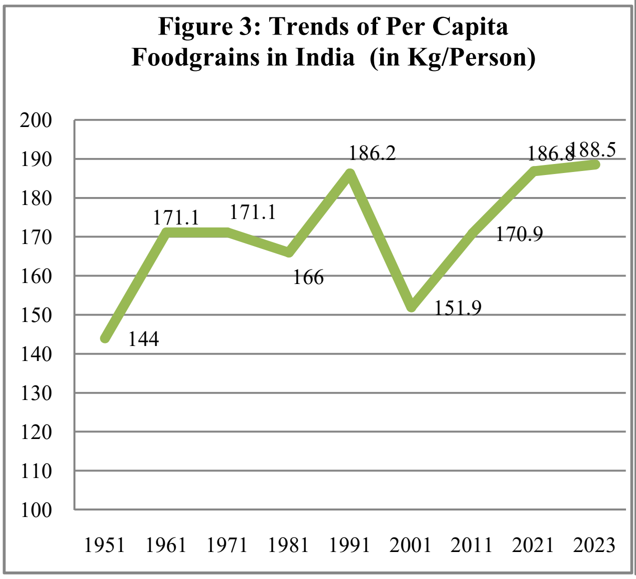
The composition of food grains as shown in Figure 2 indicates that the food grains are majorly dominated by Rice (41 per cent) and Wheat (34 per cent). The share of nutritional grains like coarse cereals (16 per cent) and pulses (9 per cent) is very low which needs to be improved.

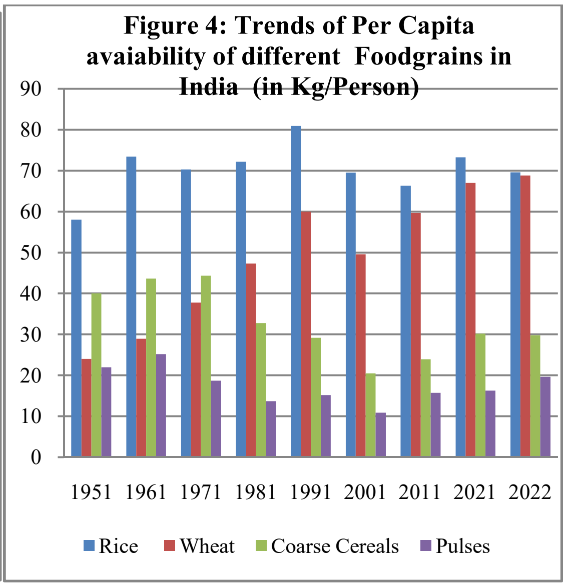




Source: Agricultural Statistics at Glance 2022.

The per capita availability of food grains in India has marginally increased from 144 Kg/person in 1951 to 188.5 Kg/person in 2023 with some ups and down as shown in Figure 3. This improvement is lead by rice and wheat but not by nutritional coarse cereals and pulses as shown in Figure 4. In fact the per capital availability of pulses has declined during this period. The latest government data shows during 2021-22, that the share of fruits and vegetables in the food basket has increased to 19.4 per cent. The share of livestock products reached to 38 per cent of total value of agri-food. These indicate that the country's food basket is more nutritious today than before.





Source: Agricultural Statistics at Glance 2022.

10.2.3 Institutional Mechanism to ensure Food Security in India

Food security in a country requires a strong institutional mechanism for its effective implementation. Ideally India has strong institutional mechanism to ensure food security in the country. It has been proved during recent COVID-19 crisis where despite of grinding halt and collapse of all the economic activities and unemployment in the country, the country could successfully managed to ensure food supply to all the people through various systems and programs. India has largest Public Distribution System with lakhs of Faire Price Shops in the world to supply subsidized food grains to the poor and other vulnerable sections in the society. It is backed by MSP based procurement system and warehouse storage facilities run by FCI. There is a strong legislative mechanism in the form of National Food Security Act 2013 for its effective implementation. There are other systems such as ICDS and Mid-Day Meal to directly provide food security and health care's to the women and children under six. The details of these mechanisms are discussed below.

i. The System of MSP, Procurement and Food Grain Stocking

To insulate cultivators from price risk, the government announces the minimum support price (MSP) for a crop at the beginning of each agricultural season. Currently India announces MSP to 23 crops and procures them seasonally. To protect the farmers from the fluctuations in price, the government adopts a policy of 'procurement'. Under this, during the harvesting season, the government buys food grains from the farmers at MSP. The procured food grains are to be stored in warehouses maintained by Food Corporation of India (FCI).

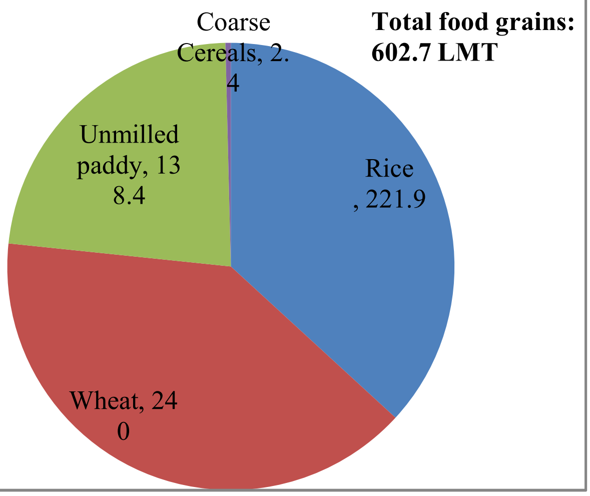
Food grain stocking norms refers to the level of food stock in the Central Pool to meet the operational requirement of food grains and exigencies at any point of time. Earlier this concept was termed as Buffer Norms and Strategic Reserve. The Table 1 shows the central government's current buffer stock norms of food grains during a financial year in the form of rice and wheat which varies across the quarters from the lowest of 210 Lakh Metric tonnes in 1st April to highest of 411.2 Lakh Metric tonnes in 1st July.

India, always maintains the buffer stock more than its norms may because of its compulsion to procure under MSP procurement system. The Figure 5 shows that currently as on October 2023, the total buffer stock in India stands at 602 lakh metric tonnes (LMT) out which majority are rice (360 LMT) followed wheat (240 LMT). The nutria coarse grains are very low at 2.4 LMT.

Table 1: Central Government' current Buffer norms in a financial year in India which effect from 2017 (in Lakh Metric Tonnes)

As on Month	Operational Stock			Strategic Reserve		Grand Total
	Rice	Wheat	Total	Rice	Wheat	
1st April	115.8	44.6	160.4	20	30	**210.4**
1st July	115.4	245.8	361.6	20	30	**411.2**
1st October	82.5	175.2	257.0	20	30	**307.0**
1st January	56.1	108.0	164.1	20	30	**214.1**

Figure 5: Current available Buffer Stocks in India (As on October 2023 in Lakh Metric Tonnes)



Source: FCI, https://fci.gov.in/stocks.php?view=217

ii. The Public Distribution System

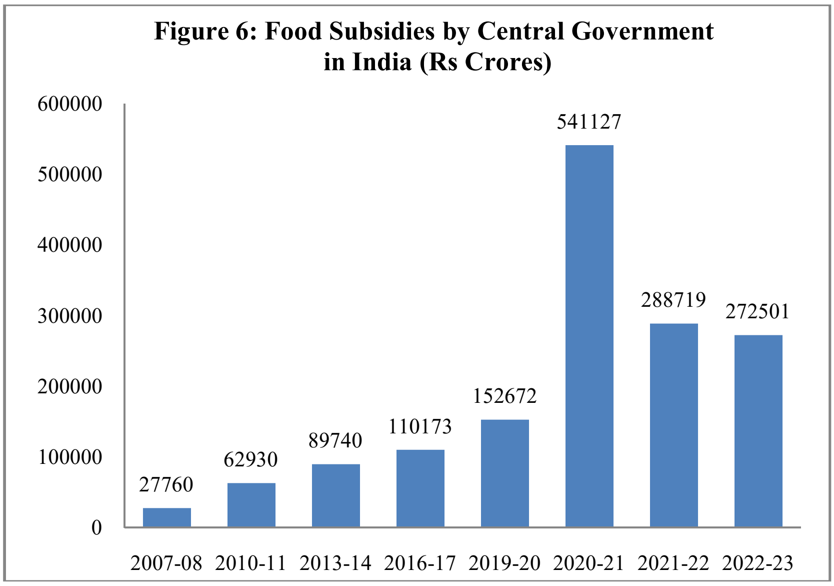
The Public Distribution System (PDS) is the largest food subsidy programme in India to provide food grains at subsidised rates to people in India. PDS has its origin in the 'rationing' system introduced by the British during World War II (1939–45) and was retained as a key component of social policy during the process of planned economic development initiated in 1951. In India, PDS has been expanded over time to provide not only food grains but also other essential commodities like sugar and kerosene. The universal PDS has been modified into Targeted PDS in 1997 under which the below poverty line families can buy at lower prices than the above poverty line families. Due to the implementation problems especially Type F error (selection of undeserved) under subsidised PDS, some economists argue in favor of Universal PDS so that the real hunger and poor people will not suffer.

iii. National Food Security Act (NFSA), 2013

The National Food Security Act (NFSA), 2013 marks a shift away from a welfare based to a rights-based approach that ensures food security for over two-thirds of the nation. NFSA covers up to 50% of India's urban population and up to 75% of India's rural population through a well-established Targeted Public Distribution System (TPDS). It provides the subsidised food grains at ₹1/2/3 per kg for coarse grains/wheat/rice, respectively, at the rate of 5 kg per person per month to priority households. It also covered under Antyodaya Anna Yojana (AAY) beneficiaries (poorest of the poor) at free of cost at the rate of 35 kg per family per month

iv. Food Subsidy System in India:

To ensure no one sleeps hungry, the Central Government provides subsidized food grains to States under the National Food Security Act (NFSA) and other welfare schemes including PMGKAY, AAY etc. Part of the food subsidy goes towards procuring food grains at MSP, storing them in warehouses and maintaining buffer stock by the Food Corporation of India (FCI) The provision of food subsidy is one of the major expenditure in the central government expenditure. The figures 8 shows that the Food subsidy bill by the central government which is given to FCI and States, has increased dramatically over the last one and half decade period. It has increased by about ten times from Rs 27,760 during 2007-08 to Rs 2,72,000crores during 2022-23. The food subsidy bill has sky rocketed during 2021-22 because of COVID-19 crisis where the central government had to give large grains at free of cost. The food subsidy bill continues to remain very high in the near future as the central government has extended PMGKAY - the free grain scheme for the next five years.



Source: Dept of Food and Public Distribution, Govt. of India.

10.2.4. Problems of Food Security in India

Although India has achieved the physical availability of food, but it has many problems related to food securities which are as follows.

i. There is problem in accesses and equity in food security in India. Still significant proportion of people does not have purchasing power to buy the sufficient food. The poor, children and women are worst effected group in food security in India.
ii. There is problem of quality of food products in India because of increasing use of chemical fertilizers and pesticides in the cultivation of food products.
iii. The nutrition component in the food products is missing in the diet to majority Indian people. The share of protein, vitamin food – pulses, eggs, meat fruits, vegetables etc are deficient.
iv. The access and quality of food grains available in the PDS system is big problem in India.

v. There is large scale syphoning of food grain from PDS system that causes corruption and losses to the exchequer.

10.2.5. Schemes for Food Security in India

The following are the important measures and schemes for implementing the food security in the country.

i. National Food Security Mission (NFSM): NFSM is a Centrally Sponsored Scheme launched in 2007 to increase the production of food grains in terms of rice, wheat and pulses in the country. The twelfth five year plan (2012-17) target under NFSM was to produce 25 million tonnes of food grains comprising of 10 million tonnes rice, 8 million tonnes of wheat, 4 million tonnes of pulses and 3 million tonnes of coarse cereals.

ii.Public Distribution System (PDS), Targeted PDS and NFSA, 2013: The central government provides the subsidized food grains to the states under PDS. The food distribution was near to universal under earlier PDS, later it was made as targeted under TPDS to target to BPL households under which the Central Government was reimbursing the states/UTs @ 18.50 per kg food grains. Under NFSA 2013, the there was a paradigm shift in the food security programme in India. Under the NFSA, every eligible beneficiary is entitled to receive 5 kg of food grain at a highly subsidized price. A few states have already adopted the NFSA or have implemented a modified version of the NFSA, whereas the rest of India still follows the TPDS system.

iii. Antyodaya Anna Yojana (AAY): AAY was launched in December, 2000 for one crore poorest of the poor families. AAY involved identification of one crore poorest of the poor families from amongst the number of BPL families covered under TPDS within the States and providing them food grains at a highly subsidized rate of Rs.2/- per kg. for wheat and Rs.3/- per kg for rice. Every AAY family would get food grain of 35 Kgs per family per month.

iv. Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY): Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) has been started by Central government during COVID-19 crisis in 2020 to provide free food grains to more than 80 crore people in the country under the NFSA. Recently this scheme has been extended for next five years from 1st January 2024 to 31stDecemeber 2029.

v. One Nation, One Ration Card (ONORC): ONORC was implemented in India to further strengthen the food grain distribution in India under NFSA by allowing the people to avail subisidised food grains from anywhere in the country with singly ration card. It is beneficial to the migrant workers and marginalized communities, to easily procure their food grains across the country, regardless of their location.

vi. The schemes of ICDS and Mid-Day Meal to School children are important initiatives to address the problem of food and nutritional security among women and children in the country. The details of these schemes are discussed in the next section on malnutrition.

10.3 MALNUTRITION

Human being requires sufficient nutritional values in their food intake to lead a healthy life. Lack of food security leads to rise in mal nourishment and under nourishment. World Health Organisation 2015 notes that undernourished children are more likely to be stunted. Stunting has long-term effects on individuals, including poor cognition and educational performance, low adult wages, lost productivity and higher risk of nutrition related chronic diseases in adult life. Noble Laureate Amartya Sen emphasized in his classic study of Famines (1981) that starvation is caused not much by shortage of food supply, but by a lack of entitlements/real income to buy food.

10.3.1 Concepts of Malnutrition: Malnutrition is a wider concept and it has several sub concepts which are discussed below.

i. Malnutrition is an unbalanced nutritional condition in a human body. As per FAO, malnutrition refers to both under nutrition (problems caused by deficiencies) and over nutrition (problems caused by unbalanced diet that involve consuming too many calories in relation to requirements, with or without low intake of micronutrient-rich foods. Under nutrition results in other three problems such as stunting, wasting and underweight. Over nutrition results in overweight, obesity and non-communicable diseases. Malnutrition is generally prevalent more among children and women in India. Different concepts of malnutrition are shown in Figure 5.

ii. **Stunting** is low height for age. It is a medical condition in which a child has impaired growth and development. As a result, their bodies are unable to attain a decent height leaving them disproportionate to their age and weight.

iii. Wasting is less weight for height. It pertains to having a low body weight with respect to the child's height. This condition has a high morbidity and mortality rate.

Stunting is a result of acute malnutrition, whereas wasting mainly occurs due to improper nourishment over a longer period of time.

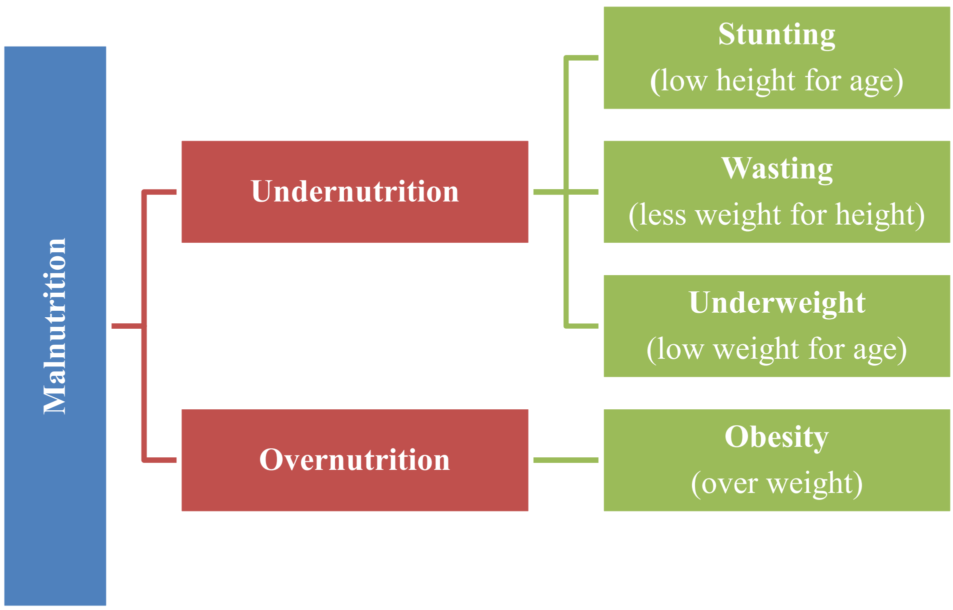
iv. Underweight is low weight for age. The child who is underweight may be stunted or wasted or both. Maintaining the right amount of weight is essential, as being underweight leads to a weakened immune system and causes you to feel tired and lethargic all the time.

v.Obesity is a condition in which an abnormal amount of fat accumulates in the body to the point where it has detrimental effects on the health of the individual.

Underweight and Obesity are both manifestations of chronic malnourishment.

vi. **Hunger**refers to the combination of four component indicators such as undernourishment, child stunting, child wasting and child mortality. Global Hunger Index (GHI) by FAO measures the hunger index with these four component indicators that reflects deficiencies in calories as well as in micronutrients.

Figure 5: Different concepts of Malnutrition



10.3.3 Status of Malnutrition in India

Malnutrition is one of the biggest global issues that humanity is facing now. The Report of the State of Food Security and Nutrition in the World 2023 of FAO, UNO provides the latest information on malnutrition in several aspects for world countries including India. The Figure 6a to 6d provides information on several aspects of malnutrition in India with its neighbouring countries – Bangladesh and Srilanka and world.

As shown in Figure 6a, the percentage of **undernourished** people in India in 2022 stands at 16.4 per cent this is much higher than the World level (9.2 per cent) and also higher than its neighbouring countries Bangladesh (11.2 per cent) and Srilanka (5.3 per cent). It is notable achievement for India and other countries that the levels of undernourishment has declined from the past 2004-06.

As shown in Figure 6b, the percentage of **stunted** children under 5 years in India in 2022 stands at 31.7 per cent this is much higher than the World level (22.3 per cent) and also higher than its neighboring countries Bangladesh (26.4 per cent) and Srilanka (15.9 per cent). It is notable achievement for India and other countries that the wasted children have declined during last decade 2012-2022.

As shown in Figure 6c, the percentage of **wasted** children under 5 years in India in 2022 stands at 18.7 per cent this is much higher than the World level (6.8 per cent) and also higher than its neighbouring countries Bangladesh (9.8 per cent) and Srilanka (15.1 per cent).
As shown in Figure 6c, the percentage of **anemic** women aged 15-49 years in India in 2022 stands at 53 per cent this is higher than the World level (39.4 per cent) and also higher than its neighbouring countries Bangladesh (36.7 per cent) and Srilanka (34.6 per cent). It is regrettable for India and other countries that the anemic women have remained same during last decade 2012-2022.

In case of the **Global Hunger Index (GHI)** which indicates the deficiency in calorie and micronutrients for human, India performs very poor. India ranks 111out of 125 countries in 2023 whose rank is near to many African countries and worse than many it's neighbouring countries.

As shown in Figure 6e, the GHI score, (higher score indicates higher proportion of people suffers from hungry), in India remain at serious level with the score of 28.7 in 2023 but it has improved from alarming score of 35.5 in 2008. The hunger score in India remain higher than the world average and higher than its neighbouring countries Bangladesh and Srilanka.

The Gallup World Poll Survey for India shows that the proportion of people not having enough money for food in India remained alarmingly at higher levels of 48 per cent in 2021 and it has risen from 40.2 per cent in 2018. This may be as a result of COVID 19 effect.
These above data results indicate that India, although making efforts to reduce the malnutrition levels, but it still has relatively higher levels of malnutrition than other countries in the world and it has to long way in the future

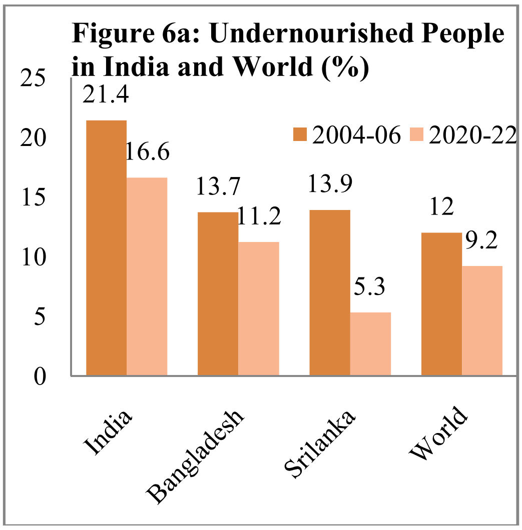


Figure 6a: Undernourished People in India and World (%)

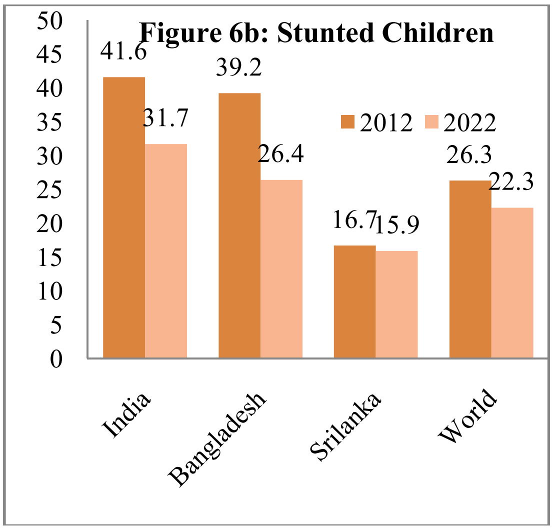


Figure 6b: Stunted Children

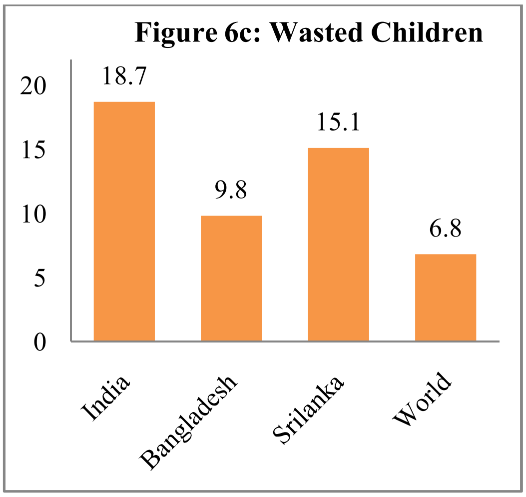


Figure 6c: Wasted Children

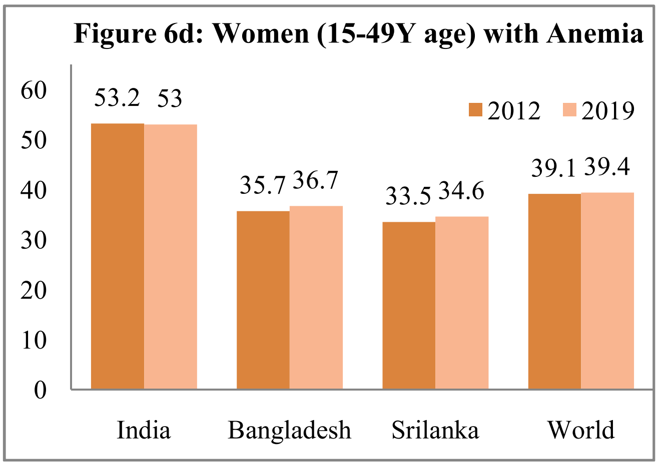


Figure 6d: Women (15-49Y age) with Anemia

Source: Report of the State of Food Security and Nutrition in the World 2023 of FAO, UNO.

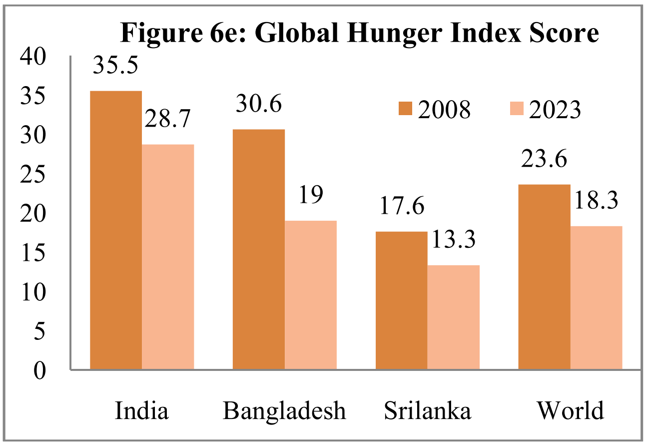


Figure 6e: Global Hunger Index Score

Source: 2023 Global Hunger Index: The Power of Youth in Shaping Food System, WHH.

The status of malnutrition in India and across the states as per the NFHS-5 data is shown in Table 2. Themalnourishment in children of various aspects - stunting, wasting and underweight in India during stand at 35.5%, 19.3% and 32.1% respectively. Malnutrition among women aged 15-49 years has also reduced from 22.9% to 18.7%.

The states of Bihar, Uttar Pradesh, Jharkhand, Gujarat, Madhya Pradesh, Karnataka and Maharashtra are the poor performing below average states in malnutrition of children India during 2019-21. The states of Tamil Nadu, Kerala, Manipur and Sikkim are high performing states in India. Interestingly, the previously poor performing states – Odisha and Chattisgarh have improved their status in children under malnutrition. In fact the lowest stunting children districts in India during 2019-21 are Jagatsinghapur (13.2 per cent) and Puri (13.8 per cent) are from Odisha only. The highest stunting children districts in India during 2019-21 are Sambhal (51.6 per cent) and Budaun (51.8 per cent) are from Uttar Pradesh.

Table 2: Malnutrition levels among Children under 5 years in India during 2019-21 (%)

State/UT	Stunted (height-for-age)	Wasted (weight-for-height)	Underweight (weight-for-age)
States with above National Average			
Meghalaya	46.5	12.1	26.6
Bihar	42.9	22.9	41
Uttar Pradesh	39.7	17.3	32.1
Jharkhand	39.6	22.4	39.4
Gujarat	39	25.1	39.7
Madhya Pradesh	35.7	19	33
Karnataka	35.4	19.5	32.9
Assam	35.3	21.7	32.8
Maharashtra	35.2	25.6	36.1
Below National Average States			
Chhattisgarh	34.6	18.9	31.3
West Bengal	33.8	20.3	32.2
Telangana	33.1	21.7	31.8
Nagaland	32.7	19.1	26.9
Tripura	32.3	18.2	25.6
Rajasthan	31.8	16.8	27.6
Andhra Pradesh	**31.2**	**16.1**	**29.6**
Odisha	31	18.1	29.7
Delhi	30.9	11.2	21.8
Himachal Pradesh	30.8	17.4	25.5
Mizoram	28.9	9.8	12.7
Arunachal Pradesh	28	13.1	15.4
Haryana	27.5	11.5	21.5
Uttarakhand	27	13.2	21
Jammu & Kashmir	26.9	19	21
Goa	25.8	19.1	24
Tamil Nadu	25	14.6	22
Punjab	24.5	10.6	16.9
Kerala	23.4	15.8	19.7
Manipur	23.4	9.9	13.3
Sikkim	22.3	13.7	13.1
Puducherry	20	12.4	15.3
India	**35.5**	**19.3**	**32.2**

Source: National Family Health Survey-5, 2019-20.

10.3.4 Causes of Malnutrition in India: The following are the important causes of malnutrition in India.

i. Inappropriate and sub-optimal infant and young child feeding and caring practices
ii. Issues relating to the prevention of illnesses and access to healthcare
iii. Low awareness regarding nutrition and the use of local nutritious food including sources of nutrients
iv. Inadequate attention to the health and nutrition of adolescent girls
v. Inadequate access to safe drinking water and proper sanitation facilities

10.3.5 Measures to address the problem of malnutrition in India

Government has accorded high priority to the issue of malnutrition and is implementing several schemes to address the problem of malnutrition in the country. The following are the important schemes in this direction.

i. Integrated Child Development Services (ICDS) or Anganwadi Scheme: The ICDS was launched in 1975 as a centrally sponsoring scheme to provide food security including nutritional security and health security to women and children. It provides health and nutrition to adult and pregnant women and nutrional food, immunization and non-formal pre-school education to children up to six years.

ii. Mid-day Meals Scheme (MDMS): The central government introduced the MDMS in 1995 with the purpose of providing nutritious food to children of primary schools there by improving children's attendance and reducing dropouts from the schools. Next it is extended to all the classes up to 12th class.

iii. Pradhan Mantri Matru Vandana Yojana (PMMVY):PMMVY is a Centrally Sponsored DBT scheme with a cash incentive of ₹ 5000/- (in three installments) being provided directly in the bank/post office account of pregnant women and lactating mothers.

iv. POSHAN Abhiyaan: This was launched in 2018, aims to achieve improvement in nutritional status of Adolescent Girls, Pregnant Women and Lactating Mothers in a time bound manner by adopting a synergised and result oriented approach. It seeks to strengthen nutritional content, delivery, outreach and outcomes with focus on developing practices that nurture health, wellness and immunity to disease and malnutrition. Currently Poshan 2.0 is going on.

10.4 SUMMARY

India has achieved the food security only up to food availability. The concept of accessibility, affordability and nutritional food security shall be realized to larger sections of the population in the country. The public distribution system shall be made more effective by supplying the more varities of nutritional food grains with quality. The increasing food subsidy bill is the major concern for the government in fiscal discipline point of view. However, it is the government responsibility to ensure that every citizen would realize its right to food provision and goes to bed with zero hunger. There should not be any compromise on this basic right irrespective of fiscal burden which can be followed in any other secondary services.

India has marched many miles in addressing the malnutrition in the country. Despite of its efforts, India still suffers from the problem of malnutrition among children and women. India poor performance in Global Huger Index ranking is disappointing. This reflects that the economic growth in the countries was not inclusive enough to address the important human development issue – nutritional health of the population. The dedicated programs to address this problem need be strengthened with holistic approach by linking it with larger economic development.

10.5 KEY WORDS

Food Security: Food security means making food available at affordable prices at all times, to all sections of people, without interruptions. Food security is not only a question of the ability to produce food but also of the ability to access food.

Nutritional food security: It refers to availability and access of food products in the country in all the varieties of food products with high nutritional values. This means food grins comprise of rice, wheat, coarse cereals, pulses, vegetables and fruits.

Malnutrition: Malnutrition is an unbalanced nutritional condition in a human body. As per FAO, malnutrition refers to both under nutrition (problems caused by deficiencies) and over nutrition (problems caused by unbalanced diet that involve consuming too many calories in relation to requirements, with or without low intake of micronutrient-rich foods

Stunting: Stunting is low height for age. It is a medical condition in which a child has impaired growth and development. As a result, their bodies are unable to attain a decent height leaving them disproportionate to their age and weight.

Wasting: Wasting is less weight for height. It pertains to having a low body weight with respect to the child's height. This condition has a high morbidity and mortality rate.

Hunger: Hunger refers to the combination of four component indicators such as undernourishment, child stunting, child wasting and child mortality

10.5 SELF-ASSESSMENT QUESTIONS

i. Explain different concept of food security and mal nutrition in India.
ii. Discuss the status of food security and its problems in India.
iii. 'India has achieved physical food security but failed to eradicate malnutrition'. Comment.
iv. Briefly explain the government measures to ensure food security and reduce malnutrition in India.

10.6 SUGGESTED READINGS

1. "Indian Economy" by Ramesh Singh, McGraw Hill Publishers.
2. "Indian Economy: Performance and Policies" by Uma Kapila, Academic Foundation Publishers, New Delhi.
3. "Indian Economy" by Datt and Mahajan, S. Chand Publications.
4. "Indian Economy" by Puri, Mishra and Garg, Himalaya Publishers.
5. Various reports of "Economic Survey of India", Govt. of India.
6. Report of State of Food Security and Nutrition in the World 2023 of FAO, UNO
7. Report of Global Hunger Index, WHH.
8. Open source material from eGyanKosh by IGNOU, Khan Academy etc. https://egyankosh.ac.in/.

Dr.Ch. Shankar Rao

LESSON – 11
INDIAN INDUSTRIAL SCENARIO

Aims and Objectives

- To understand the importance and features of the industrial sector in the Indian economy
- To analyze the recent industrial policy in India
- To study industrial development initiatives such as Make in India, Start-Up, and Stand-Up programs
- To study industrial infrastructural projects such as SEZs and industrial corridors

Structure

11.1 Introduction
11.2 Importance of the Industrial Sector in the Indian Economy
11.3 Features of the Indian Industrial Sector
11.4 Industrial Policies in India Prior to 1991
11.4.1. Industrial Policy Resolutions 1948:
11.4.2. Industrial Policy Resolution 1956
11.4.3. Industrial Policy Statement 1977
11.4.4. Industrial Policy Statement, 1980
11.5 New Industrial Policy, 1991
11.6 Programs for Industrial Development
11.6.1. Make in India
11.6.2. Start-Up India
11.6.3 Stand-Up India
11.7 Infrastructural Developmental Programs for Industrial Development
11.7.1 Special Economic Zone
11.7.2 Industrial Corridors
11.8 Summary
11.9 Keywords
11.10 Self-Assessment Questions
11.11 Suggested Readings

11.1 INTRODUCTION

As per the traditional economic development theory, the process of economic growth and development starts in the economy with industrialization alone. As witnessed in the case of current developed Western economies, rapid industrialization has played a crucial role in taking their economies to a developed stage. Hence, a higher level of industrial development takes the economy to a higher level of development.

Industrialization is a process by which the center of gravity of the economy shifts from agriculture to industry. Industrialization involves two things: i) Adoption of technologically superior production techniques that help transform basic raw materials and intermediate goods into manufactured goods. ii) Application of modern management and organization techniques like economic calculations, accounting, management techniques, etc.

The industrial sector comprises four subsectors: mining and quarrying, manufacturing, electricity and gas, and construction.

Industrialization in India started during the British period, but the real industrialization took place only after independence in 1947. The industrial sector in the Indian economy is central to the whole economy and leads the economy down the development path. The industrial sector in India has been under planned development with the lead of the public sector until 1990. The economic reforms in the form of liberalization, privatization, and globalization were landmarks in the history of the Indian industrial sector. With the dominant role of the private sector under the regimes of increasing liberalization and globalization during post-reforms, the Indian industrial sector entered a new era of higher growth paths, international competitiveness, diversification, mechanization, and digitization. The current scenario of the Indian industry is Industry 4.0, with increasing digital and smart technologies on one side and the significant role of traditional small-scale industries on the other. Currently, the industrial sector is crucial not only for its significant share of GDP (30%) and employment (26%) but also for taking the economy from the status of a developing economy to a developed economy during the Amritkal period by 2047. In this context, this chapter studies the importance and features of the industrial sector in India, the recent industrial policy of 1991, and industrial development initiatives such as Make in India, Start-up, Stand-up, SEZ, and industrial corridors.

11.2 IMPORTANCE OF THE INDUSTRIAL SECTOR IN THE INDIAN ECONOMY

The industrial sector in the Indian economy is so important in the following aspects, as discussed below:.

i. **Structural Transformation of the Economy:** The development of the industrial sector is key to bringing structural transformation in the Indian economy from an agriculturally dependent economy to an industry- and service-dependent economy in terms of shares in both employment and GDP.

ii. **Potential employment provider:** The industrial sector in India currently provides employment at 25 percent. As the service sector has limitations in absorbing the surplus labor generated from the agricultural sector, the industrial sector has the potential to absorb the surplus labor and create more employment in the economy.

iii. **Higher growth rates:** As the industry is the key input supplier to both the agriculture and service sectors in the economy, its growth has the potential to bring higher growth to the whole economy.

iv. **Increase the productivity and income of the worker:** Generally, the productivity and income of a worker are relatively higher in the industrial and service sectors than in agriculture. The NITI Ayog report 2022 reveals that workers in the industrial sector would earn three times more than workers in the agricultural sector. Hence, the growth of the industrial sector is essential in the Indian economy to increase the productivity and income levels of workers.

v. **Promoting Urbanization:** Urbanization is an indication of the level of development in an economy. Urbanization comes with the growth of industry and service sectors. In India, the urbanization rate is still less than 30%. Hence, to increase urbanization in India, there is a need for the development of the industrial sector in the economy.

vi. **Tapping advanced technological innovations:** The industrial sector is largely based on the use of technology. This sector uses advanced and innovative technologies. Industry 4.0 depends solely on computer and artificial intelligence technologies.

vii. **To tap foreign direct investment:** foreign direct investment plays an important role in the development of the industrial sector in developing countries like India by bringing new technology and organizational managerial skills. The Indian industrial sector during the post-reform period has been at the forefront and has continued to tap into foreign direct investment for its fast growth.

viii. **Promoting international trade:** The industrial sector is the key to raising international trade in an economy. India's share in global merchandise trade is still at a lower level of 1.8 percent in 2022. To raise this level, the growth of the industrial sector is essential.

ix. **To promote green and sustainable development,** green and sustainable development involves environmentally friendly development. The industrial sector is the largest polluting sector in India that impacts the environment. The industrial sector in India shall be at the forefront of bringing environmentally friendly, green, and sustainable development by using no-polluting green technology and energy.

11.3 FEATURES OF THE INDIAN INDUSTRIAL SECTOR

Indian industrial sector has distinct features that comprises both modern and traditional of all types. It has problems of backward ness and prospects for advancement. The following are the details of important features.

i. **Dominance of the manufacturing sector:** the industrial sector comprises four subsectors: mining and quarrying, manufacturing, electricity and gas, and construction. Out of the total 30 per GDP share by the industrial sector in the Indian economy during 2022–23, the manufacturing sector dominates with a higher share in GDP (17.3 percent), followed by construction (8.1 percent), mining and quarrying (2.3 percent), and electricity, water, and gas (2.3 percent). The construction industry has been a fast-growing sub-sector over the last decade.

ii. **Significant role of MSMEs:** Micro, small, and medium enterprises (MSMEs) play a significant role in the Indian industrial sector by playing a subsidiary role to the industry in terms of supplying the raw materials, key parts, marketing, etc. MSMEs contribute about 36 percent of the total manufacturing sector in India. It will continue to be so in the future as the government promotes MSMEs for their higher employment potential.

iii. **Significant role of the public sector:** The public sector plays an important role in the development of the industrial sector since independence, especially in creating the base for industrial development. The public sector is prominent in mining and minerals, iron, steel, and other metals, oil and gas, heavy electrical, heavy and medium engineering, fertilizer, power generation, ports, highways, etc. Currently, in 2021–22, there are 389 central-sector public enterprises whose turnover ranges from below Rs 1,000 crore to Rs 1,00,000 crore and generates a gross turnover of Rs 32 lakh crore with a share above 10 percent of GDP.

iv. **Leading role of the private sector: the** Indian industrial sector, although it has a significant share of the public sector, is led by the private sector, whose role has become dominant since economic reforms in 1991. Indian private industries also earned the reputation of multinational companies by establishing their operations across the world.

v. **Duality in Product and Technology: The** Indian industrial sector comprises dualities in many aspects in terms of its operation, products, technology, etc. India has industries producing traditional and basic goods as well as modern, heavy engineering goods. Some adopt advanced technology, while others still use old technology.

vi. **Regional imbalances in industrial development:** Industrial development in India is not even distributed across the states in India. Industries are concentrated in only a few states, like Maharashtra, Tamil Nadu, Gujarat, and Haryana, and the other states are lagging behind in this respect. Within states also, the industries are concentrated around some metropolises like Mumbai, Pune, Chennai, Coimbatore, Delhi, Kolkata, Hyderabad, Ahmadabad, Surat, etc., but not in other urban areas. Hence, there is a need for a big push to spread the industries across all the states and regions of India.

vii. **Prospects of Industry 4.0: The** Indian industry, with the development of state-of-the-art technology and management skills, is ready and capable of taking advantage of new opportunities in emerging industry 4.0, which is based on advanced technology of the internet of things, cloud computing, artificial intelligence, machine learning, robotics, etc.

11.4 INDUSTRIAL POLICIES IN INDIA BEFORE 1991

Industrial policy is the policy that provides a clear vision and strategy for the development of industrial development in the country. India brought industrial policies from time to time since independence in different forms like Industrial Policy Resolutions (1948 & 1956), Industrial Policy Statements (1977 and 1980), and New Industrial Policy (1991) which is the latest policy.

The main objectives of the Industrial Policy of the Government are

i. to maintain a sustained growth in productivity
ii. to enhance gainful employment
iii. to achieve optimal utilisation of human resources
iv. to attain international competitiveness; and
v. to transform India into a major partner and player in the global arena.

To achieve these objectives, the Policy focus is on deregulating Indian industry; allowing freedom and flexibility to the industry in responding to market forces; and providing a policy regime that facilitates and fosters growth.

The following is a brief description of previous industrial policies.

11.4.1. Industrial Policy Resolutions 1948

This is the first industrial policy resolution in Independent India that laid the road path for industrial development. The important features of this policy are

- It declared the nature of the Indian economy as a Mixed economy
- It has given importance to small and cottage industries
- Foreign investment was restricted to the Indian industrial sector.
- The industries were divided into four categories such as exclusive monopoly to central government, new undertaking only by the state, industries regulated by the government, and open private enterprises and cooperatives

11.4.2. Industrial Policy Resolution 1956

Industrial Policy Resolution (IPR) 1956 is a landmark in the history of industrial development that was in operation till 1991 with some modifications in 1973, 1977, and 1980. This laid down the basic principles of economic policy in the country, hence it was called as Economic Constitution of India.

The basic features of IPR 1956 are as follows

i. It emphasized the development of heavy and machine-building industries

ii. It provided for the expansion of public sector industries
iii. It gave priority to the establishment of large and growing cooperative sector
iv. It also encouraged the diffusion of ownership and management in the private sector
v. It divided the industries into three groups such as Schedule A – which covers the Public Sector (17 Industries), Schedule B – which covers the Mixed Sector (i.e. Public and private) (12 Industries) and Schedule C – only Private Industries
vi. It also provided for foreign investment
vii. It has also provided for small-scale industries.

The IPR 1956 was severely criticized by the private sector as it provided for restriction on the expansion of the private sector through a system of licenses that needed to be abolished in the 1991 policy.

11.4.3. Industrial Policy Statement 1977

This is the modification for IPR 1956. The following are the important modifications made in this statement.

i. It emphasized the creation of employment for the poor.
ii. It provided for the decentralization of industries.
iii. It gave priority to small-scale industries and created a 'Tiny Unit'.
iv. It restricted Multinational Companies and provided for the reduction of concentration of wealth.

11.4.4. Industrial Policy Statement, 1980

i. It emphasized promoting competition in the domestic market, modernization, technological up-gradation, and selective Liberalization for increasing industrial productivity.
ii. This laid the foundation for an increasingly competitive export-based industry and encouraged foreign investment in high-technology areas.
iii. It sought to promote the concept of economic federation to raise the efficiency of public sector enterprises.
iv. Important acts of the MRTP Act (Monopolies Restrictive Trade Practices) and FERA Act (Foreign Exchange Regulation Act, 1973) were modified due to this.

11.5 NEW INDUSTRIAL POLICY 1991

India adopted a new industrial policy (NIP) on July 24, 1991, as a sharp departure from the old Industrial Policy Resolution 1956 and to overcome the economic crisis in 1991 which was majorly contributed by the inefficiency in the industrial sector. The basic philosophy of the new policy has been summed up as: 'continuity with change'.

NIP 1991 is a path-breaking in the history of industrial development in India. It has bid farewell to the government control or license raj to the private sector and unleashed the private sector through the strategy of LPG (liberalization, privatization, and globalization).

a. Objective of NIP 1991:

- To consolidate the strengths built up during the first four decades of economic planning and correct the weaknesses in this period
- To raise efficiency & productivity, accelerate economic growth, and ensure gainful employment
- To attain international competitiveness in the industrial sector

b. Features of New Industrial Policy

To realize the above objectives the NIP 1991 followed

i. **De-reservation of the Public Sector:** The number of sectors that were earlier exclusively reserved for the public sector was reduced to five core areas arms and ammunition, atomic energy, mineral oils, rail transport, and mining. Except for these five sectors, all other sectors were opened to the private sector. Presently, this list is further reduced only to **two sectors- Atomic Energy and Railway operations.**

ii. **De-licensing:** Abolition of Industrial Licensing for all projects except for a short list of industries related to security, strategic, and environmental concerns. This list is presently confined to four sectors Electronic aerospace and defence equipment; Specified hazardous chemicals; Industrial explosives and Cigars and cigarettes of tobacco and manufactured tobacco substitutes

iii. **Privatisation and Disinvestment of Public Sector:** The public sector enterprises were privatized by offering IPOs to the general public, and selling to strategic partners or foreign companies. As part of disinvestment, the government's share in Public Sector Enterprises has been reduced to enhance their efficiency and competitiveness by providing market discipline.

iv. **Sick industries:** Public enterprises that are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board of Industrial and Financial Reconstruction.

v. **Dispersing Industries**: This policy had provisions for decentralization of the industrial activities geographically.

vi. **Liberalization of Foreign Investment:** NIP 1991 allowed foreign companies to buy a majority stake in India through Foreign Direct Investment (FDI). FDI, up to 51 percent was allowed in high-priority industries, and up to 74 per cent was in export trading houses. Currently, upto 100 per cent FDI is allowed in many sectors of the economy. FERA (Foreign Exchange Regulatory Act) was committed to being diluted and gradually replaced by the liberal one FEMA (Foreign Exchange Management Act) which was done in 1999.

vii. **Foreign Technology Agreement:** Automatic permission will be given for foreign technology agreements in identified high priority industries

viii. **MRTP Act:** Monopolies Restrictive Trade Practices Act 1969 was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. Later MRTP Act was replaced by the Competition Act 2002.

ix. **Introduced provision of location of industries:** NIP 1991 had classified the industries into 'polluting' and 'non-polluting' for deciding their location. Non-polluting industries might be set up anywhere and polluting industries to be set up at least 25 km away from the million-plus cities.

c. Impact of NIP 1991

The following are the important points while looking at the impact of NIP 1991

i. It had attempted to liberalize the economy by removing bureaucratic hurdles, unleashed the energy of the private sector, and paved the way for higher industrial sector growth rates.

ii. It had a limited role in the Public sector and reduced the burden of the Government. The public sector enterprises were mandated to follow competitive market discipline which had resulted in their performance in the later periods.

iii. The policy provided for easier entry of multinational companies and increased the level of competition in the Indian economy. This led increase in foreign investment in many sectors in the economy.
iv. The increased competition as the result of NIP 1991 led to lower prices of many goods such as electronics prices.
v. The exports got boosted under this policy through many special efforts like Export Oriented Units, Special Economic Zones and the recent initiative of National Investment and Manufacturing Zones.

d. Shortcomings of New Industrial Policy 1991

While the NIP 1991 has much to promote growth and efficiency, it has paid little attention to several serious problems as mentioned below

i. It has overlooked the creation of employment in the industrial sector. As a result, the share of industrial employment in India stagnated at around 24 percent.
ii. There has been a neglect of linkages between industry and agriculture
iii. There were few incentives for Research and Development for the creation of innovations in the industrial sector.
iv. There was little attention paid to the regional spread of industries. As a result industries in India are located in a few regions in the country.
v. There are no exit policy provisions in NIP 1991 for facilitating exit for entrepreneurs
vi. NIP 1991 failed to define a proper industrial location policy, which could ensure a pollution-free development of industrial climate.
vii. It failed to promote the MSMEs and innovative industries in the country. As a result Indian industrial sector is controlled by a few big business companies.

11.6 PROGRAMS/SCHEMES FOR INDUSTRIAL DEVELOPMENT IN INDIA

Central and state governments implement many programs for the promotion of industrial development in the country. This section discusses the important programs of the government of India for industrial development, such as Make in India, Start-Up, and Stand-Up.

11.6.1. Make in India

The ''Make in India' program was launched in September 2014 by the Government of India to give impetus to manufacturing in India and make India a global manufacturing hub by encouraging multinational as well as domestic companies to manufacture their products in India. This program was launched in a campaign mode to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure.

a. Vision of Make in India: Attracting both capital and technological investment in India, enabling it to become the top global FDI.

b. Objective of Make in India: To focus on job creation and skill enhancement in 25 key sectors of the economy, including automobiles, aviation, biotechnology, defense manufacturing, electrical machinery, food processing, oil and gas, and pharmaceuticals, among others. It aimed to raise the contribution of the manufacturing sector to 25% of the GDP and create 100 million jobs by 2022.

c. Four Pillars of Making in India:

The "Make in India" initiative is based on four pillars that have been identified to give a boost to entrepreneurship in India, not only in manufacturing but also in other sectors. These four pillars are: new processes; new infrastructure; new sectors; and a new mindset.

i. **New Processes**: A new way of processing in terms of licensing and regulation has been started under this program. It aimed to de-license and de-regulate the industry during the entire life cycle of business. The initiative of 'ease of doing business' is important in this direction.
ii. **New Infrastructure**: Under this aspect, state-of-the-art technology with modern high-speed communication and integrated logistic arrangements will be given high priority by the government. Accordingly, existing infrastructure is to be strengthened through the upgrading of infrastructure in industrial clusters. Industrial corridors and smart cities will be developed. Innovation and research activities are supported by fast-paced
iii. **New Sectors:** 'Make in India' has identified 25 sectors in manufacturing, infrastructure, and service activities. FDI has been opened up in defense production, construction, and railway infrastructure in a big way.
iv. **New Mindset**: Industry is accustomed to seeing 'Make in India' intends to change the earlier mindset by bringing a paradigm shift in how government interacts with industry.

The approach of the government will be that of a facilitator, not a regulator. The government will partner industry in the economic development of the country.The Make in India program has been built on layers of collaborative effort. There have been Union Ministers, Secretaries to the Government of India, state governments, industry leaders, and various knowledge partners.

e. Measures by the government for the Make in India program

The central government has initiated an array of measures, like ease of doing business, to make this program of Make in India a reality, rationalize the licensing rules, and replace files and red tape. The major steps taken by the government in this regard are as follows:

i. An interactive portal for dissemination of information and interaction with investors has been created with the objective of generating awareness about the investment opportunities and prospects of the country, promoting India as a preferred investment destination in markets overseas, and increasing the Indian share of global FDI.
ii. Invest India is set up as the national investment promotion and facilitation agency.
iii. A full-fledged Investment Facilitation Cell has been setup under the Make in India initiative with the objective of promoting investment in the country.
iv. There are a number of steps to enhance the skills of workers and the unemployed in India in order to improve their employability.
v. In order to tap the creative potential and boost entrepreneurship in India, the Start-up India and Stand-up India campaigns have been announced.
vi. An innovation promotion platform called AIM (Atal Innovation Mission) and a techno-financial incubation and facilitation program called SETU (Self-Employment and Talent Utilization) are being implemented to encourage innovation and start-ups in India.
vii. To support the financial needs of the small and medium enterprise sector and promote start-ups and entrepreneurship, various steps have been taken through Make in India. (a) The India Aspiration Fund has also been set up under the SIDBI for venture capital financing in the MSME sector. (b) SIDBI Make in India Loan for Small Enterprises (SMILE) launched to offer quasi-equity and term-based short-term loans to Indian SMEs on liberal terms. (c) A Micro Units Development Refinance Agency (MUDRA) Bank is set up to provide development and refinance to commercial banks, NBFCs, and cooperative banks for loans given to micro-units.

viii. Labor laws were liberalized through recodification into four laws.

11.6.2. Start-Up India

The Government of India launched the Start-up India scheme in January 2016 with the slogans Start-up India and Stand-up India. Start-up India will turn Indian youths from job seekers into job creators. It will encourage entrepreneurship, innovation, and the creation of revolutionary new products in India. The initiative aspires to give India wings to fly above the sky.

The Start-up India scheme aims to build a strong ecosystem for nurturing innovation, driving sustainable economic growth, and generating large-scale employment opportunities. Apart from the technology sector, the start-up movement is extended to a wide array of other sectors, including agriculture, manufacturing, biotechnology, healthcare, and education. This is also extended from existing tier 1 cities to tier 2 and tier 3 cities, including semi-urban and rural areas. The proposed action plan for the firms is as given below:

i. Creating a compliance regime based on self-certification will reduce the regulatory burden and keep compliance costs low.
ii. Setting up a Start-up India hub to create a single point of contact for the entire Start-up ecosystem and enable knowledge exchange and access to funding.
iii. rolling out a mobile app and portal to serve as a single platform for start-ups to interact with government and regulatory institutions and various stakeholders.
iv. relaxed norms of public procurement.
v. Legal support and fast-tracking of patent examination at lower costs to promote awareness of IPR (Intellectual Property Rights).
vi. Faster and easier exit norms.
vii. Providing funding support through a fund of funds with a corpus of Rs. 10,000 crore.
viii. Credit Guarantee Fund to catalyze entrepreneurship.
ix. Income tax exemption for three years and tax exemption on capital gains.
x. Launch of AIM (Atal Innovation Mission) with the SETU (Self-Employment and Talent Utilization) program to serve as a platform for promotion of world-class innovation hubs, start-up businesses, and other self-employment activities, particularly in technology-driven areas.
xi. Promotion of Industry-Academia Partnership through incubation centers at national institutes to propel successful innovation
xii. setting up of seven new research parks (modeled on the research park at IIT Madras).
xiii. Launching innovation-focused programs for students to foster a culture of innovation in the field of science and technology

11.6.3 Stand-Up India

The Stand-Up India Scheme was launched in April 2016 to promote entrepreneurship among SC, ST, and women at the grassroots level, focusing on economic empowerment and job creation. This scheme recognizes the challenges that energetic, enthusiastic, and aspiring SC, ST, and women entrepreneurs may face in setting up enterprises, obtaining loans, and other support needed from time to time to convert their dream into reality by succeeding in business. The scheme endeavors to create an ecosystem that facilitates and continues to provide a supportive environment for doing business.

a. The purpose of Stand-Up India

i. Promote entrepreneurship amongst women in the SC and ST categories.

ii. Provide loans for greenfield enterprises in manufacturing, services, the trading sector, and activities allied to agriculture.
iii. Facilitate bank loans between Rs. 10 lakh and Rs. 100 lakh to at least one Scheduled Caste or Scheduled Tribe borrower and at least one woman borrower per bank branch of Scheduled Commercial Banks. In the case of non-individual enterprises, at least 51 percent of the shareholding and controlling stake should be held by either an SC/ST or a woman entrepreneur.

The loan shall be a composite loan, i.e., to meet the requirements of assets such as plant and machinery and working capital. It is expected to cover 85 percent of the project cost. The rate of interest would be the lowest applicable rate in that category, not to exceed the base rate (MCLR) + 3% + tenor premium. It shall be repayable in up to 7 years with a moratorium of up to 18 months.

The scheme envisages up to 15 percent margin money, which can be provided in convergence with eligible central and state schemes. The borrower shall be required to bring in a minimum of 10 percent of the project cost as their own contribution.

The desiring applicants can apply under the scheme directly at the branch, through the Stand-Up India Portal (www.standupmitra.in), or through the Lead District Manager (LDM).

b.Handholding Support under Stand-Up:

Apart from linking prospective borrowers to banks for loans, the online portal www.standupmitra.in, developed by the Small Industries Development Bank of India (SIDBI) for the Stand Up India Scheme, is also providing guidance to prospective entrepreneurs in their endeavor to set up business enterprises, starting from training to filling up loan applications, as per bank requirements. Through a network of more than 8,000 handholding agencies, this portal facilitates step-by-step guidance for connecting prospective borrowers to various agencies with specific expertise, viz., skilling centers, mentoring support, entrepreneurship development program centers, and district industries centers, together with addresses and contact numbers. NABARD also provides support for this scheme.

By March 2023, a total of 1,80,636 SC/ST and women entrepreneurs had received a benefit of Rs. 40,710 crore since the inception of the scheme.

11.7 INFRASTRUCTURAL DEVELOPMENTAL PROGRAMS FOR INDUSTRIAL DEVELOPMENT IN INDIA

The provision of infrastructure facilities like roads, ports, airports, water, electricity, communication, etc. is crucial for the development of industries in an economy. The government of India has been making efforts to develop several infrastructure facilities for industrial development in India. The important programs in this aspect are Special Economic Zones and Industrial Corridors.

11.7.1 Special Economic Zone

The special economic zone (SEZ) policy was announced by the government in 2000 and was concretized through the SEZ Act of 2005. It mainly aims to develop ‘export hubs’ in the country to promote growth and development. The SEZs can be set up by either the government, states, or even the private sector—in all three sectors of the economy—agriculture, industry, and services.

A SEZ is a specially delineated duty-free enclave treated as a deemed foreign territory within a country for the purpose of trade operations, duties, and tariffs, with special rules for facilitating foreign direct investment leading to exports. SEZ units shall be a positive net foreign exchange earner for a period of five years.

As an idea, it was not new—India had set up Asia's first 'export processing zone' (EPZ) in Kandla in 1965 itself. Later on, the idea got another encouragement through the 'export-oriented units' (EOUs). After the SEZ policy was formalized through an Act, the EOUs and EPZs are open to conversion to SEZ.

a. The principal objectives of SEZs

i. generation of additional economic activity;
ii. promotion of exports of goods and services
iii. promotion of investment from domestic and foreign sources
iv. creation of employment opportunities
v. development of infrastructure facilities.

b. Incentives offered to SEZ units

i. 100 percent income tax exemption on export income for SEZ units under the Income Tax Act for the first 5 years, 50% for the next 5 years thereafter, and 50% of the ploughed-back export profit for the next 5 years.
ii. single window clearance for central and state-level approvals.
iii. Duty-free import or domestic procurement of goods for the development, operation, and maintenance of SEZ units
iv. Supplies into SEZs are zero-rated under the new GST law (i.e., no GST will be levied when the goods are purchased by SEZs from the DTA area).
v. In the manufacturing sector, barring a few segments, 100% FDI is allowed.
vi. Profits earned are permitted to be repatriated freely, with no need for any dividend balancing.
vii. Many SEZs offer developed plots and ready-to-use space.

c. Steps taken by the government to strengthen SEZs in India

i. The minimum land area requirement for setting up new SEZs has been reduced to 50 percent for multi-product and sector-specific SEZs.
ii. Sectoral broad-banding has been introduced to encompass similar and related areas within the same sector.
iii. A new sector, the 'agro-based food processing' sector, has been introduced to encourage agro-based industries in SEZs.
iv. Dual use of facilities like social and commercial infrastructure by SEZs and non-SEZ entities has been allowed in order to make SEZ operations more viable.
v. Online processing of various activities relating to SEZ for improving 'ease of doing business'.
vi. The 'SEZIndia' mobile app was launched to help the SEZs track their transactions on the SEZ Online System.

As of January 13, 2023, out of 425 approved SEZs, 270 are operational in the country. About 64% of the SEZs are located in five states: Tamil Nadu, Telangana, Karnataka, Andhra Pradesh, and Maharashtra. By 2020, SEZ will have created employment for about 23 lakh people, and they will share about 20 percent of total exports. In recent times, the SEZs have lost their original synergy due to the global economic slowdown, which followed the great recession among the developed economies.

National Manufacture Policy and NIMZs:

NMP 2011: Government of India, on 4th November 2011 had announced National Manufacturing Policy (NMP) to boost the industrial development in the country through the development of manufacturing sector which is the major component in industrial sector in

India. The objective of NMP 2011 is enhancing the share of manufacturing in GDP to 25% and creating 100 million jobs over a decade or so. The policy is based on the principle of industrial growth in partnership with the States. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy.

NIMZ: National Investment & Manufacturing Zones (NIMZs) are one of the important instruments of National Manufacturing Policy, 2011. NIMZs are envisaged as large areas of developed land with the requisite eco-system for promoting world class manufacturing activity. "NIMZs will be developed as integrated industrial townships with state-of-the-art infrastructure and land use on the basis of zoning; clean and energy-efficient technology; necessary social infrastructure; skill development facilities, etc."At least 30% of the total land area proposed for the NIMZ will be utilized for the location of manufacturing units. A NIMZ requires minimum land area of 5000 hectares while a SEZ requires is maximum 5000 hectares. Central government provides external infrastructure like rail, road, port, airport, telecommunication, in a time bound manner also provide Viability gap funding (VGP) wherever required. The State Government will constitute a Special Purpose Vehicle (SPV) to discharge the functions specified in the policy. The SPV will prepare a strategy for the development of the zone and an action-plan for self-regulation to serve the purpose of the policy

By 2021, the Central Government has given in-principle approval for 18 NIMZs along with eight Investment Regions along the Delhi Mumbai Industrial Corridor (DMIC) project. Government accorded final approval for setting up of 4 National Investment & Manufacturing Zones (NIMZs) namely Prakasam District (Andhra Pradesh), Sangareddy District (Telangana), Kalinganagar, Jajpur District (Odisha) and Hyderabad Pharma City NIMZ in Rangareddy District (Telangana)

11.7.2 Industrial Corridors

The Government of India has adopted the strategy of developing integrated industrial and economic corridors in partnership with state governments to boost industrial development. The strategy of an industrial corridor is thus intended to develop a sound industrial base, served by world-class competitive infrastructure, as a prerequisite for attracting investments into export-oriented industries and manufacturing.

The different sectors of an economy are interdependent on each other. Industrial corridors, recognizing this interdependence, offer effective integration between industry and infrastructure, leading to overall economic and social development.

a. National Industrial Corridor Programme

The Government of India is developing various industrial corridor projects as part of the National Industrial Corridor Programme, which is aimed at developing futuristic industrial cities in India that can compete with the best manufacturing and investment destinations in the world. The same will create employment opportunities and economic growth, leading to overall socio-economic development.

Industrial corridors constitute world-class infrastructure, which is as follows:

i. High-speed transportation network (rail and road)
ii. Ports with state-of-the-art cargo handling equipment
iii. Modern airports
iv. Special economic regions and industrial areas
v. Logistic parks and transportation hubs

vi. Knowledge parks focused on catering to industrial needs
vii. Complementary infrastructure, such as townships and real estate
viii. Other urban infrastructure, along with an enabling policy framework

There are long-term advantages to business and industry along the corridor, including smooth access to industrial production units, decreased transportation and communications costs, improved delivery times, and a reduction in inventory costs.

The Government of India, by December 2023, has accorded approval for the development of 11 industrial corridors (32 projects) in four phases forming part of the National Infrastructure Pipeline, which are as follows:.

1. Delhi Mumbai Industrial Corridor (DMIC)
2.Chennai Bengaluru Industrial Corridor (CBIC)
3.Extension of CBIC to Kochi via Coimbatore
4. Amritsar Kolkata Industrial Corridor (AKIC)
5. Hyderabad Nagpur Industrial Corridor (HNIC)
6. Hyderabad Warangal Industrial Corridor (HWIC)
7. Hyderabad Bengaluru Industrial Corridor (HBIC) 8.Bengaluru Mumbai Industrial Corridor (BMIC)
9. East Coast Economic Corridor (ECEC) with Vizag Chennai Industrial Corridor (VCIC) as Phase-1
10. Odisha Economic Corridor (OEC
11. Delhi Nagpur Industrial Corridor (DNIC)

Source: https://nicdc.in/index.php

In addition to the above, the proposed North-South, East-West, and East Coast Dedicated Freight Corridors will further supplement the existing transportation backbone for the corresponding industrial corridors.

National Industrial Corridor projects are being developed within the overall framework of PM Gati Shakti - National Master Plan to provide systematic, multi model connectivity to various economic zones for the seamless movement of people, goods, and services, resulting in efficient logistics and economic activities.

The development of these eleven industrial corridor projects will be implemented by the National Industrial Corridor Development Corporation (NICDC). The National Industrial Corridor Development and Implementation Trust (NICDIT) provides funds as equity or debt for the development of world-class trunk infrastructure in the industrial nodes and regions under industrial corridors, and the states are responsible for making available contiguous and encumbrance-free land parcels. By August 2023, the government will have released funds amounting to Rs. 9900 crore for the Industrial Corridor Project.

Manufacturing is a key economic driver in industrial corridors. and these projects are critical for the success of 'Make in India' in raising the share of manufacturing in India's GDP from the current level of 16% to 25% by 2022.

These corridors are spread across India with a strategic focus on inclusive development to provide a boost to industrialization and planned urbanization. Smart cities are being developed along these corridors. These cities, with state-of-the-art infrastructure, will house the new workforce that is required to power manufacturing, in turn leading to planned urbanization.

It will position India as a strong player in the global value chain and enhance India's competitiveness in manufacturing through the creation of quality infrastructure.

These industrial corridors will also derive synergies with the 14 coastal economic zones (CEZs) planned along the coastal districts. The proposed industrial clusters under Sagarmala have been mapped to these industrial corridors.

PM Gati Shakti, the National Master Plan for Multi-modal Connectivity, is another initiative of the Government of India, launched in October 2021, to make India a hub of world-class infrastructure through integrated and seamless connectivity for the movement of people, goods, and services from one mode of transport to another. It will facilitate the last-mile connectivity of infrastructure and also reduce travel time for people. It is essentially a digital platform to bring 16 ministries, including railways and roads, together for integrated planning and coordinated implementation of infrastructure connectivity projects. It will incorporate the infrastructure schemes of various ministries and state governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN, etc. Economic zones like textile clusters, pharmaceutical clusters, defense corridors, electronic parks, industrial corridors, fishing clusters, and agri-zones will be covered to improve connectivity and make Indian businesses more competitive.

Major Schemes for Industrial Development in India:

Government of India has undertaken various policy measures and implements several schemes to support industrial development in the country. The important policy measures include National Manufacture poliy,introduction of Goods and Services Tax, reduction in Corporate tax, interventions to improve ease of doing business, FDI policy reforms, measures for reduction in compliance burden, policy measures to boost domestic manufacturing through public procurement orders, Phased Manufacturing Programme (PMP) etc.

the major initiatives /schemes of central government for industrial development in India are as follows:

i. **Make in India initiative:** 'Make in India' is an initiative which was launched on 25th September 2014 to facilitate investment, foster innovation, build best in class infrastructure and make India a hub for manufacturing, design and innovation. It was one of the unique single, vocal for local initiative that promoted India's manufacturing domain to the world. '

ii. **Industrial Corridor Development Programme:** In order to accelerate growth in manufacturing, Government of India (GoI) has adopted the strategy of developing Industrial Corridors in partnership with State Governments. The objective of this programme is to develop Greenfield Industrial regions/areas/nodes with sustainable infrastructure & make available Plug and Play Infrastructure at the plot level. As part of National Industrial Corridor Program, 11 Industrial Corridors are being developed in 4 phases.

iii. **Ease of Doing Business:** The objective is to improve Ease of Doing Business and Ease of Living by Simplifying, Rationalizing, Digitizing and Decriminalizing Government to Business and Citizen Interfaces across Ministries/States/UTs. The key focus areas of the initiative are simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor, technical or procedural defaults.

iv. **National Single Window System:** The setting up of National Single Window System (NSWS) was announced in the Budget 2020-21 with the objective to provide "end to end" facilitation and support to investors, including pre-investment advisory, provide information related to land banks and facilitate clearances at Centre and State level. This is a one-stop shop for investor related approvals and services in the country.

v. **PM Gati Shakti National Master Plan (NMP):** PM Gati Shakti National Master Plan (NMP), a GIS based platform with portals of various Ministries/Departments of Government, was launched in October, 2021. It is a transformative approach to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost.

vi. **National Logistics Policy:** National Logistics Policy (NLP) was launched on 17th September 2022, that aims to lower the cost of logistics and lead it to par with other developed countries. It is a comprehensive effort to address cost inefficiency by laying down an overarching interdisciplinary, cross-sectoral, and multi-jurisdictional framework for developing entire logistics ecosystem. This would boost economic growth, provide employment opportunities, and make Indian products more competitive in the global market.

vii. **Production Linked Incentive scheme**: Keeping in view India's vision of becoming 'Atmanirbhar', Production Linked Incentive (PLI) Schemes for 14 key sectors have been announced with an outlay of Rs. 1.97 lakh crore to enhance India's Manufacturing capabilities and Exports. These schemes have potential for creation of high production, economic growth, exports and significant employment over the next five years and more.

viii. **Indian Footwear and Leather Development Programme (IFLDP):** The Central Government has approved the Central Sector Scheme 'Indian Footwear and Leather Development Programme (IFLDP)' in January, 2022 with an allocation of Rs.1700 crore till 31.03.2026 or till further review, whichever is earlier.

ix. **North East Industrial Development Scheme (NEIDS), 2017:**To promote industrialization in NE States and to boost employment and income generation, a new Scheme namely North East Industrial Development Scheme (NEIDS), 2017, came into force w.e.f. 01.04.2017 for a period of five years. The scheme covered manufacturing and service sector

x. **Schemes to encourage domestic manufacturing of pharmaceutical drugs including bulk drugs and medical devices** *has been started with the outlay of Rs 3600 crores*

xi. **Modified Programme for Semiconductors and Display Manufacturing Ecosystem**: In furtherance of the vision of Aatmanirbhar Bharat and positioning India as the global hub for Electronics System Design and Manufacturing, a comprehensive program for the development of semiconductors and display manufacturing ecosystem in India was approved by Government of India with an outlay of 76,000 crore (>10 billion USD). The Programme contained various schemes to attract investments in the field of semiconductors and display manufacturing.

xii. **FAME-India Scheme (Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles):** In order to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same, FAME-India Scheme-Phase-I [Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India] was implemented from 1st April 2015 upto 31st March, 2019. Total outlay of Phase-I of the FAME-India Scheme has been enhanced from Rs. 795 Crore to Rs. 895 Crore.The Phase-II of FAME-India scheme proposes to give a push to electric vehicles (EVs) in public transport and seeks to encourage adoption of EVs by way of market creation and demand aggregation.

xiii. **Udyami Bharat Scheme:** 'Udyami Bharat' is reflective of the continuous commitment of the government, right from day one, to work towards the empowerment of Micro Small and Medium Enterprises (MSMEs). The government has launched several initiatives from time to time like MUDRA Yojana, Emergency Credit Line Guarantee Scheme, Scheme of Fund for Regeneration of Traditional Industries (SFURTI) etc. to provide necessary and timely support to the MSME sector, which has helped benefit crores of people across the country. 'Raising and

Accelerating MSME Performance' (RAMP) scheme with an outlay of around Rs 6000 crore, aims to scale up the implementation capacity and coverage of MSMEs in the States, with impact enhancement of existing MSME schemes.

xiv. **PM Mega Integrated Textile Region and Apparel (PM MITRA):** In order to have world-class industrial infrastructure which would attract cutting age technology and boost FDI and local investment in the textiles sector, Ministry of Textiles issued notification to set up 7 Mega Integrated Textile Region and Apparel (PM MITRA) Parks with a total outlay of Rs. 4,445 crore. These parks will offer an opportunity to create an integrated textiles value chain right from spinning, weaving, processing/dyeing and printing to garment manufacturing at one location.PM MITRA scheme aspires to position India strongly on the Global textiles map.

11.8 SUMMARY

This chapter discussed the importance of the industrial sector in the Indian economy as a kingpin to the development of the overall economy, the transformation of the economic structure, and the generation of income and employment. The main features of the Indian industrial sector were discussed, which include dominance of the manufacturing sector, a significant share of MSMEs, duality of products and technology, a dominant private sector along with a significant role for the public sector, regional concentration, etc. Industrial policies in India since independence were discussed. The industrial policy resolution of 1956 was the economic constitution of India, which was in operation till 1991 with some modifications that changed the face of the industrial sector in India under the control of government regulation that gave priority to the public sector. The new industrial policy of 1991 was discussed in detail. The main features of this policy include liberalization, privatization, and globalization, which have helped unleash the growth of the private sector in India, but with some regional inequalities. Later, the programs for industrial sector development in India, such as Make in India, Start-up, and Stand-up, were discussed with their main features. These programs aim to nurture and support the new innovative ideas in the industrial and other sectors by providing liberal government support. The infrastructural program for industrial development, such as SEZs and industrial corridors, has been creating suitable environments and required facilities for the industry. The industrial sector in India still needs to go a long way by increasing its base through higher GDP and employment shares and by catching up to the opportunities in Industry 4.0.

11.9 KEYWORDS

i. NIP 1991: New Industrial Policy 1991 is the path-breaking industrial policy in India that has liberalized, privatized, and globalized the Indian industrial sector.

ii. Make in India: Make in India' program launched in 2014 to give an impetus to manufacturing in India and make India a global manufacturing hub by facilitating investment, fostering innovation, enhancing skill development, protecting intellectual property, and building best-in-class manufacturing infrastructure.

iii. Start-up India: The Start-up India scheme was launched in 2016 to build a strong ecosystem for nurturing innovation, driving sustainable economic growth, and generating large-scale employment opportunities.

iv. Stand Up India: The Stand Up India Scheme was launched in April 2016 to promote entrepreneurship among SC, ST, and women at the grassroots level, focusing on economic empowerment and job creation.

v. SEZ: A special economic zones policy was launched in 2000 and 2005 to boost exports by developing 'export hubs' in the country and to promote growth and development.

vi. Industrial Corridors: Industrial corridors involve the development of industrial infrastructural facilities by providing world-class competitive infrastructure as a prerequisite for attracting investments into export-oriented industries and manufacturing. Currently, India aims to develop 11 industrial corridors in four phases.

11.10 SELF-ASSESSMENT QUESTIONS

1. Discuss the importance of the industrial sector in the Indian economy.
2. Explain the main features of the industrial sector in India.
3. Elucidate the main features of the New Industrial Policy of 1991 and its short comings.
4. The 'Make Make India program is a big boost to industrial development in India'. Comment.
5. Explain how the Start-up India and Stand-up India schemes help industrial development in India.
6. Discuss the features and success of SEZs in India.
7. Explain the contribution of industrial corridors to industrial development in India.

11.11 SUGGESTED READINGS

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7. Official Websites: Make in India, Start-Up India

Dr.Ch. Shankar Rao

LESSON - 12
ECONOMIC REFORMS IN INDIA

Aims and Objectives
- To study economic reforms in India and analyse their components and effects.
- To learn about the initiatives by government of India during the recent economic crisis – COVID-19
- To study the and analyse the Atmanirbhar Bharat Package announced by the government India during COVID-19

Structure

12.1 Introduction
12.2 Economic Reforms
12.2.1 Economic reforms before 1991
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12.2.4 The Objectives of Economic Reforms 1991
12.2.5 Main features of Economic Reforms 1991
12.2.6 Impact of Economic Reforms
12.3 Economic Initiatives during COVID-19 crisis and Atmanirbahar Bharat Package
12.3.1 Economic Initiatives during COVID-19 Crisis
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12.1 INTRODUCTION

No power on earth can stop an idea whose time has come. Let the whole world hear it loud and clear. India is now wide awake

- MANMOHAN SINGH

Economic reforms are the drastic changes made in the functioning of an economy. In the Indian case these changes could be in change inthe functioning of economic system from controlled or mixed economy to market economy, liberalization of licensing system for the industry and business, industrial dereservations, privatization of public sector entreprises, increasing role for private sector, globalization of international trade, free investment flows, flexible exchange rates markets, flexible monetary and fiscal policies, liberalization of banking operations, labour laws and so on.

India had brought the economic reforms in 1991 to change the form of economy broadly from state controlled economy to market economy. The broad philosophy of these economic reforms is to go towards liberalization, privatization and globalisation. These reforms were brought as a measure to save the economy from the economic crisis in 1980s in several forms like BoP crisis, high inflation, government debts, fiscal and monetary problems, crisis in public sector units etc. The economic reforms were carried in India as a commitment to World Bank and International Monetary Fund for their huge loans. The reforms are continuous processes that are being carried out in several forms and over a period of time which are continuing till today.

The important measures of economic reforms of 1991 in India were industrial dereservation, delicensing, privatization, disinvestment in public sector units, tax rationalization, fiscal consolidation, commercialization of banks, trade liberalization, reducing the restrictions on foreign investment, devaluation, exchange rate etc. These reforms have had transformed the Indian economy into market economy with the declining role of state in economic affairs. The broad results were that Indian economy could come out of then economic crisis. The economy had entered into high growth rate path (7 to 8 per cent per annum) from the low level the Hindu Growth Rate (3 to 4 per cent per annum) as Raj Krishna had termed. The role of private sector has significantly increased in all the sectors of the economy. The economy has been more globalized by integrating with world economy. The poverty had significantly decreased. However these reforms had some negative impacts like rise in inequalities, unemployment, vulnerability etc.

The Indian economy along with whole world had encountered economic shock and crisis due to COVID-19 pandemic in 2020-21. This had prompted the central and state governments to take several measures like free provisions of food grains, free health service and vaccination, provision of employment under MNREGA, other welfare measures, investment support etc. The government of India had used this opportunity to implement Atmanirbhar Bharat to make Indian economy more self-reliant in the world.

In this background, this chapter discusses the details of economic reforms and their impactin Indian economy, government initiatives during COVID-19 crisis and Atmanirbhar Bharat package in India.

12.2 ECONOMIC REFORMS

Economic reforms are the drastic changes made in the functioning of an economy. Reforms are continuous process in any economy. In case of India, economic reforms took place popularly in 1991 but there were few reforms in 1980s too. We discuss, the economic reforms before 1991 and during and post 1991.

12.2.1 Economic reforms before 1991

The major thrust for the economic reform in India has taken place in 1991 when the country faced severe economic crisis. Before 1991, the Prime Minister - Rajiv Gandhi also outlined the reforms in 1985 for giving greater role to provide sector. The main focus of reforms in 1985 was to improve the productivity, absorption of modern technology and fuller utilization of capacity.

A number of changes were introduced in policy with regard to industrial license, export-import policy, technology up gradation, fiscal policy, foreign equity capital, removal of controls and restrictions, rationalizing and simplifying the system of fiscal and administrative regulations.

All these changes were directed towards creating suitable climate for private sector so that sector could get a big boost to modernize the country and usher in rapid economic growth. It dismantled and remove unnecessary hurdles in securing license.

Though the reform process started in 1985, they could not yield the desired results. So they could not check the upcoming crisis in 1991 which demanded the full-fledged reform process to revive the economy from the crisis and also to take the economy into development path.

12.2.2 Background to Economic Reforms 1991

The economic reforms in 1991 had been brought as a measure to overcome then. Hence it is important to understand the background or situation of Indian economy at the time of economic reforms in 1991 in the form of economic crisis. The main forms of then economic crisis in 1991 include unsustainable fiscal deficit, unsustainable current account deficit and accelerating inflation. The origin of the crisis was directly attributed to the problems in macroeconomic management during the 1980 which led to the large persistent macroeconomic imbalances.

According to Deepak Nair 'the international imbalance in the fiscal situation and external imbalances in the payment situation were closely related to the absence of prudence in the macroeconomic management'.

The following are the details of economic crisis during 1991.

i. Balance of Payment situation: The balance of payment (BoP) situation in India was worst during 1990-91. The foreign reserves were just sufficient for 10 days of imports, the current account deficit reached to 3.7% of GDP and external debt has mounted to 23% of GDP. Finally the BoP situation was highly precarious on account of two factors such as flight of short term debt and net out flow of NRI deposits.

ii. High level of Inflation: The inflation under WPI in India during 1990-91 rose to 10.3%. The price of food rose substantially increased. This high inflation was attributed to large deficits which are associated with monetization of budget deficits and an excessive growth of money supply.

iii. The fiscal imbalance: The fiscal situation has had deteriorated throughout the 1980s due to growing burden of non-development expenditure. Fiscal deficit had increase to 6.6% in 1990-91. The internal debt of Central Government rose to 49.8% of GDP in 1990-91.

12.2.3 Ushering Economic Reforms 1991

As discussed above, apart from other reasons, the immediate trigger of the economic reforms in 1991 was the Balance of Payment crisis which was the result of shortage of foreign currency. India had to approach World Bank and International Monetary Fund (IMF) for the loans. They have given the loan to India with agreement of bringing economic reforms in the form of New Economic Policy 1991.

Accordingly Economic reforms in 1991 were taken up by then central government under the leadership of Prime Minister PV NarasimhaRao and Finance Minister Dr. M Manmohan Singh. The main focus of these reforms were macroeconomic stabilization to deal with management of the economy and structural reforms to deal with sectorial adjustment to tackle the problem of supply side of the economy. But these all the reforms took place under guidance of 'New Economic Policy 1991' as suggested World Bank and IMF.

12.2.4 The Objectives of Economic Reforms 1991

The main objectives of the Reform as delinated from the memorandum on economic policy submitted to IMF by Dr. Manmohan Singh "The Thrust will be to increase the efficiency and international competitiveness of Industrial Production, to utilise foreign investment and Technology to a much greater degree than the past, to improve the performance and rationalize the scope of public sector and the reform and modern financial sector so that it can more efficiently serve the needs of the economy".

Objectives of New Economic Policy or Economic Reforms 1991

- Enter into the field of 'globalization' and make the economy more market oriented.
- Reduce the inflation rate and rectify imbalances in payment.
- Increase the growth rate of the economy and create enough foreign exchange reserves.
- Stabilize the economy and convert the economy into a market economy by the removal of unwanted restrictions.
- Allow the international flow of goods, capital, services, technology, human resources, etc. without too many restrictions.
- Enhance the participation of private players in all sectors of the economy. For this, the reserved sectors for the government were reduced to just 3.

The focus areas of Economic Reform were

- Industrial competitiveness
- Foreign investment and Technology
- Public sector
- Financial sector

12.2.5 Main features of Economic Reforms 1991

Economic Reforms 1991 were implemented in two categories such as macroeconomic management and structural stabilization. The details of the reforms are discussed below.

I. Macroeconomic stabilization

Macroeconomic stabilization is of demand side management of the economy that involves returning to low and stable inflation and a sustainable physical and balance of payments. These are short term measures. Three policy measures were taken up in this aspect.

i. Control of Inflation: The rate of inflation which was at over 10% per annum to be brought down. This is to be achieved by introducing fiscal and monetary discipline in the economy on one hand and by improving output and supply position on the other hand. It seems that government achievement or modest on the both the fronts.

ii. Fiscal Adjustment: Fiscal adjustment is necessary for dealing with the twin problems of high domestic inflation and large deficits in the BOP. The main objective was to progressively reduce overall public sector deficit from 12.5% of GDP to 4% GDP in mid 1990s. To achieve this and, government followed measures of Fiscal discipline both at Central and state governments. These include reduction of subsidies, market price system, strictly control public expenditure and improvement in taxes and non-tax revenues. Later Fiscal Responsibility and Budget management (FRBM) Act 2003 was introduced to check the revenue deficit at zero level at and fiscal deficit under 3% of GDP. PSEs were given greater freedom for settling prices according to market prices.The state governments were encouraged to streamline the working of the entrepreneurship especially State Electricity boards and Road Transport Corporation. The budgetary support to Central Public Sector units was withdrawn to increase efficiency. Restrictive monetary policy was followed to reduce inflationary pressure.

iii. BOP Adjustment: The objective was to improve over all BOP situations. For this government adopted measures of policy of import liberalization, transition from a regime of quantitative restriction to price based system and full convertibility of rupee on current account. Devaluation of Rupee was done by 18% to 19 % in July 1991. The import duties were being reduced from around 130% to lowest levels around 30% during 2000s.

II. Structural Reforms

Central government had introduced several structural reforms in the economy deal to tackle the problem on the supply side of the economy.These were long term measures. These were taken up under three broad aspects such as liberalization, privatization and globalization. The New Industrial Policy of 1991 was made within this framework. The detailed of them are discussed.

A. Liberalisation

Liberalization means reducing the government interference in the economic activities which include de-licensing and de-reservation of industries, free international trade and capital flows.

i. De-licensing: Industrial policy 1991 announce following measure to boost industrial productivity. Under this abolition of industrial licensing was done for all projects except for a short list of industries related to environment, safety and strategic considerations. This list was 18 in 1991, later reduced to by 2023 where it confined to 4 sectors such as a) Tobacco items, b) defense aerospace and warships c) hazardous chemicals and d) industrial explosives.

ii. Amendment to MRTP: Monopolies Restrictive Trade Practices Act 1969 was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. Later MRTP Act was replaced by the Competition Act 2002. According to this large company did not to take prior approval of government for expansion of present undertaking and establishment of new Undertakings.

iii. Liberalization in Financial Sector: Government had setup committee on financial system in 1991 and on banking sector reforms in 1998 both under the chairmanship of Narasimhan. Based on the recommendations of the committees several measures like reduction SLR and CRR, introduced the Capital Adequacy Norms as per Basel norms, recapitalization of public sector banks and allowing them to function on commercial lines, liberalization of interest rate, allowing the private sector banks, RBI has established board for financial supervision under the chairmanship of deputy governor supervising system etc.

vi. Liberalization in PSEs operations: The governments owned Public Sector Enterprises (PSE) were given greater managerial autonomy in their operations. They were allowed to function on commercial lines in fixing prices and investments plans. The policy of Memorandum of Understanding (MOU) was introduced between PSEs and government to allow PSEs to set their targets and achieve them with the emphasis on profitability and rate of returns.

B. Privatisation

Privatisation means allowing the private to operate in the sectors that were earlier reserved for the public sector and selling the share of public sector enterprises (PSE) to the private sector. The main objective of the privatization was to bring market discipline in the operation of PSEs and there by improve efficiency and performance of PSEs under the private capital, technology and management skills. Privatization is done two ways such as de-reservation and disinvestment.

i. De-reservation of PSEs: The number of sectors that were earlier exclusively reserved for the public sector was reduced initially to 18 industries of which are of strategic, security and environment concerns and gradually reduced to two sectors such as atomic energy and railway operations by 2023. Except these small reserve list, all other sectors are opened to the private sector.

ii. Disinvestment of PSEs: Disinvestment means government to transfer its stake in the public sector enterprises (PSE) to private sector and allow them manage them

Government had formed the Rangarajan committee in 1993 and GV Ramakrishna Committee in 1997 on Disinvestment of PSEs. As per their suggestions the privatization of PSEs was done through disinvestment in different ways such as

a. IPOs: Government sells its shares in PSEs to retail investors and private institutions

b. Strategic Sale: Government sells its share of 26, 49, 51, 74, 100 per cent in PSE to a private strategic partner and passes the management to them.

c. Sale to foreign company: Selling away the PSE to a foreign company or NRIs to attract foreign capital, advanced technology and managerial techniques.

Government had sold many PSEs and implemented disinvestment in all the non-strategic sectors except the sector solely reserved for public sector such as atomic energy and railways.

BIFR for the loss making PSEs: The loss making PSEs first to be referred to Board of Industrial Finance and Reconstruction (BIFR) to examine the revival.

C.Globalisation

Glabalisation means integrating the domestic economy with global economy by reducing the restrictions on the flow of goods, services, capital, technology and people between the countries. The main objective of the globalization was to increase the competitiveness of the local industry to the global level and take the benefits of international trade, capital and technology. India, as the part of New Economic Policy in 1991 had brought many initiatives related to globalization. These are as follows

i. Devaluation of Rupee: Devaluation of Rupee was done two times in 1991 to increase the exports and increase the flow of foreign capital.

ii. **Imports Liberalisation:** The negative list of imports were reduced to the few and import duty was reduced to minimum levels. Almost all intermediate and capital goods were freed from the list for import restrictions.

iii. Liberalization of Foreign Investment: Foreign investment was allowed through Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI had been gradually allowed at different percent like 26, 49, 51, 76 and 100 in many sectors in the economy. Currently FDI allowed into all the sectors in the economy except the prohibited one such as gambling, betting, lotteries, chitfund, nidhi companies, reseal estate, tobacco products and the two public sector reserved industries – atomic energy and railways.

iv. Liberalization in Foreign Exchange Regulation :FERA (Foreign Exchange Regulatory Act) was committed to be diluted and gradually replaced by the liberal one FEMA (Foreign Exchange Management Act) which was done in 1999. This has benefited all non-polluting industries.

v. Shift towards Market Exchange Rate System: The High level committee on BOP headed Rangarajan had recommended for market based exchange rate system. Accordingly Government had introduced Partial convertibility of Rupee under the scheme of later Liberalised exchange rate management system in 1992-93 and later introduced market determined exchange rate system in 1993.

vi. Scheme for Export Promotion: Government had taken up many measures to promote the export of goods and services in the form of reducing export duties, WTO agreements, free trade agreements with individual regions and countries, export promotion schemes, SEZs etc.

12.2.6 Impact of Economic Reforms

Impact of economic reforms can be seen in different trends like BOP situation, growth rate, performance of public sector enterprises, foreign trade, foreign capital flow, fiscal deficit, inflation, poverty, employment, inequalities, Human development, productivity, regional development. The economic reforms 1991 had brought many positive and few negative impacts on the Indian economy. These are discussed below.

I. Positive Impact of Economic Reforms

i. The Economic reforms had pushed the Indian economy to a high growth path of around 7 to 8 % per annum from low or Hindu growth of 4 to 5 %
ii. The inflation rate could be brought down from 10% in 1991-92 to lower levels of below 5% in a decade period.
iii. Fiscal deficit of the central government has been brought down from 5.9% in 1991-92 to around 3% in 2000s.
iv. The most important Impact of reforms is improvement in the foreign Reserves from just around 10 days results to more than 300 billion in 2000s which are sufficient to more than 6 months of imports.
v. The saving and investment rates have also been increased enormously to more than 35% in 2000s
vi. There was a significant reduction in the poverty from a round 36% in 1993-94 to 27% 2004-05 and further reduced to around 21% in 2010s.
vii. The performance of public sector enterprises has been better as the profits from these companies as increased
viii. There has been improvement in the foreign trade especially on the exports front as there was a decline in current account deficit because of rise in exports and flow of foreign investment in to the country.

II. Negative Effects of Economic Reforms

i. The growth rates of employment has decreased from around 2.4% during 1980s to around 1% during 1990s which indicate that reforms could not solve the problem of unemployment which is still persisting in the Indian economy.

ii. The productivity of labourand growth of real wage rate of have drastically declined which indicate that it had not benefited much to the working labour.

iii. Agriculture sector was grossly neglected during the reforms mainly because of fall public investment which resulted in relatively lower growth rates in this sector.

iv. There has been sharp rise in regional imbalances in the country where the relatively developed region has taken the advantage during the reforms than the relatively backward regions.

v. There has been sharp price in inequalities in the country in terms of both income and wealth which is the major fallout of the reforms.

vi. Although there has been some improvement in the human development during reforms period, but it has to go a long way because of stagnation in the expenditure on health and education as a percentage of GDP.

vii. The poverty has not been reduced much as it was expected during the reforms period. India is still home for 300 million poor people and majority of them suffer from under nutrition.

To conclude, the economic reforms in India have changed the face of Indian economy from the controlled economy to market economy and pushed the economy into high growth path. But economic reforms had not done much to the aspects of inclusiveness and social justice in the country. However the reforms gave hope to the Indian economy to become developed nation by 2047 when India will celebrate the centenary of its independence.

12.3 ECONOMIC INITIATIVES DURING COVID-19 CRISIS AND ATMANIRBAHAR BHARAT PACKAGE

COVID-19 pandemic had paralyzed the economies across the world including India during 2020-21 and 2021-22. It is a great economic shock to the entire Indian economy. The mobility of people got disrupted due to contagious corona virus. As a result, all the production activities especially in urban centers were stopped and the people who depend on them faced the loss of employment and income. There is no single sector in Indian economy that has not been effected by COVID-19 pandemic. Although rural economy was relatively less disrupted, but crisis had severely affected as it has strong linkages with industry and service sector which got severe effect. The migrant workers were worst affected of all the sections. As a result, there were negative growth rates and loss of employment and income by the people. The effect of COVID-19 on the Indian economy continues till present too.

India, being a democratic country, the government has to play bigger role to help the people and the economy to overcome COVID-19 kind of economic shocks. Accordingly, Government of India had initiated several economic measures to face the COVID-19 crisis. It has also used this crisis to usher many structural reforms in the economy to make it more self-reliant. For this government announced Atmanirbhar Bharat Abhiyan or Self-Reliant India Movement.

12.3.1 Economic Initiatives during COVID-19 Crisis

Immediately after the COVID effect on second and third week of March 2020, Finance Minister Smt. Nirma Sitaraman had announced a relief package of Rs 1.7 trillion on 26th May 2023 to help the people and economy to tide over this crisis. These measures are as follows.

I. Livelihood and Employment Related Measures

i. Pradhan Mantri Garib Kalyan Anna Yojana was launched under which about two-thirds of population in the country will get 5 kg of wheat and rice, 1 kg of pluses for free in addition to the current 5 kg allocation for the next 3 months.

ii. The farmers were given first installment of Rs 2000 under PM-KISAN scheme in April 2020 itself. About 86.9 million farmers are expected to benefit from this immediately.

iii. Under MNRGEA, wage rate was increased from Rs 182 to Rs 202 that was expected to benefit about benefit 50 million families of an additional income of Rs 2,000 per worker.

iv. The senior citizens, widows, disabled to get one-time ex-gratia amount of Rs 1,000 in two installments over the next 3 months. About 30 million people to get benefit under this.

v. Woman Jan Dhan account holders to be given ex-gratia amount of Rs 500 per month for the next 3 months, to run the affairs of their household. Around 200 million women to get benefit under this.

vi. The poor Women who are covered under Ujwala scheme to get free LPG cylinders for 3 months. Around 83 million families to get benefit under this.

vii. The collateral-free loans to Self-help Groups (SHGs), to be doubled from Rs 1 lakh to Rs 2 lakh. This is to benefit about 630,000 SHGs.

viii. State governments have been directed to use the welfare fund for the purpose of welfare of building and construction workers. The District Mineral Fund, worth about INR 310 billion, will be used help those who are facing economic disruption because of the lockdown.

II. Economic Stimulus Measures

a. The Repo rate had been reduced by 75 basis points (from current 5.15% to 4.40%).
b. RBI to provide long terms loans up to Rs2 lakh crore under TLTRO (Targeted Long Term Repo Operations) corporates, NBFCs, MFI development institutions for lending to agri, housing and medium / small enterprises
c. Cash Reserve Ratio (CRR) of all banks to be reduced by 100 basis points to 3% beginning March 28, for 1 year. This will release liquidity of INR 1,37,000 crore across the banking system.
d. Liquidity coverage ratio for banks reduced from 100% to 80%.These liquidity measures will inject liquidity of INR 4.74 lakh crore to the system.
e. MSMEs to be provided Rs 3 Lakh crore collateral free loan with 100% credit guarantee. The stressed MSMEs would get subordinate debt of Rs 20k crore.
f. The Fund of Funds with outlay of Rs 50k crore to be created for equity infusion for MSMEs with growth potential and viability
g. New definition of MSMEs by raising the investment limit with additional criteria of turnover introduced.
h. No global tenders for government contracts up to Rs 200 crore to benefit the MSMEs. MSME dues to be cleared within 45 days.
i. NBFCs/ HFCs/MFIs to be provided the relief of Rs 30,000crore through liquidity infusion. The partial credit guarantee scheme for NBFCs worth of Rs 45k crore was announced.

j. Relief package of Rs 90,000 crore was announced for the for Power utilities through liquidity infusion
k. The relaxation under Insolvency and Bankruptcy Code (IBC) were announced where threshold of default under section 4 of the IBC has been increased from Rs 100,000 to Rs 10 million with the intention to prevent triggering of insolvency proceedings against MSMEs.

12.3.2 Atmanirbhar Bharat Abhiyan

The Prime Minister Narendra Modi had announced Atmanirbhar Bharat Abhiyan or Self-Reliant India Movement on 12 May 2020, to help the economy to overcome the ongoing COVID-19 crisis. This is a special economic and comprehensive package of Rs 20 lakh crores - equivalent to 10% of India’s GDP. This includes the already announced Rs 1.70 lakh crore relief package, as the PMGKY, for the poor to overcome difficulties caused by the coronavirus pandemic and the lockdown imposed to check its spread. This also includes the bold reforms across sectors will drive the country's towards self-reliance. Its main slogan is ‘vocal for local’ where being vocal for our local products and makes them to be global.
The package emphasizes on land, labour, liquidity, and laws. It caters various sections including cottage industry, MSMEs, labourers, middle class, industries, among others.

The pillars of Atmanirbhar Bharat or a self-reliant India are as follows

- Economy
- Infrastructure
- 21st-century technology-driven arrangements and system
- Demand
- Vibrant Demography

Under this package, several reforms are announced to make India a self-reliant economy and mitigate negative effects in the future. These reforms are related to Simple and clear laws, Rational taxation system, Supply chain reforms in agriculture, Capable human resources and Robust financial system
The details of the Atmanirbhar Bharat Abhiyan was announced under Five phases by Finance Minister Smt. NirmalaSeetaraman from 13th to 17thMay 2020. These five phase cover the following things.

- Businesses including MSMEs
- Poor, including migrants and farmers
- Agriculture
- New Horizons of Growth
- Government Reforms and Enablers

The economic initiatives announced in five phases as the part of Atmnirbhar Bharat ABhiyan can be discussed under broad sectors as given below.

I. Food, Employment and Livelihoods

i. Pradhan Mantri Garib Kalyan Package (1): This includes Rs. 1.70 Lakh Crore relief package for the poor to help them fight the battle against Corona Virus. This is to benefit 80 crore poor people given benefit of 5 kg wheat or rice and 1 kg pulses per person for next 3 months. This provided Insurance cover of Rs 50 Lakh per health worker. About 20 crore women Jan Dhan account holders get Rs 500 per month for next 3 months**.** Gas cylinders to be provided at free of cost to 8 crore poor families for the next 3 months**.**Increase in MNREGA wage to Rs 202 a day from Rs 182 to benefit 13.62 crore families**.** An ex-gratia of Rs 1,000 to 3 crore poor senior citizen, poor widows and poor Divyang

ii. Pradhan Mantri Garib Kalyan Package (2): Under this, front-loaded Rs 2,000 paid to farmers under existing PM-KISAN to benefit 8.7 crore farmers**.** Building and Construction Workers Welfare Fund allowed to be used to provide relief to workers**.** 24% of monthly wages to be credited into PF accounts for next three months for wage-earners below Rs 15,000 p.m. in businesses having less than 100 workers. Five crore workers registered under Employee Provident Fund EPF to get non-refundable advance of 75% of the amount or three months of the wages, whichever is lower, from their accounts**.** Limit of collateral free lending to be increased from Rs 10 to Rs 20 lakhs for Women Self Help Groups supporting 6.85 crore rental households. District Mineral Fund (DMF) to be used for supplementing and augmenting facilities of medical testing, screening etc. Government to provide EPF Support for Business & Workers for 3 more months payment of 12% of employer and 12% employee contributions which is worth of Rs. 2500 crore. Government to allocate an additional Rs 40,000 crore under MGNREGS to generate nearly 300 crore person days during monsoon season.

iii. Measures for Migrant Labour, Unorganised Workers

- Government of India has permitted State Governments to utilise State Disaster Response Fund (SDRF) for setting up shelter for migrants and providing them food and water etc and released Rs 11002 crore of its contribution in advance to all States to augment funds in their SDRF.
- The residents of Shelters for Urban Homeless (SUH)Hygienically to get prepared three meals a day during the lockdown
- The return migrant workers in the rural areas would get additional employment under MGNREGS with enhanced wages and continuation of this even during monsoon as well.
- New labour codes were brought by merging all the previous laws into four simplified laws to streamline the benefits related to minimum wages, social security, industrial relations and safety and improvement of health services and working conditions for workers in industries.
- Social Security Scheme was introduced for Gig workers and Platform workers.
- Re-skilling fund introduced for retrenched employees.
- All occupations opened for women and permitted to work at night with safeguards.
- Unorganized workers to get Social Security Fund for their welfare.
- One Nation One Ration Card scheme was introduced for enabling the Migrants to access Public Distribution System (Ration) from any Fair Price Shop in India.
- Under PMAY for migrant labour/urban poor, Affordable Rental Housing Complexes (ARHC) to be opened by converting or constructing the building to provide ease of living at affordable rent. For this, central government would incentivize State Government Agencies / Central Government Organizations, industries, institutions to develop and operate ARHCs for the migrant workers in urban areas.

iv. Measures for Small business and Street Venders:

- MUDRA-Shishu units to get interest subvention of about Rs. 1500 crores
- Street venders to get initial working capital up to Rs 10,000 each to run their business. Total Rs 5,000 crore to be sanctioned to benefit 50 lakh street vender.

- Extension of benefits worth of Rs 70,000 croresunder Credit Linked Subsidy Scheme for Middle Income Group (Annual Income: Rs 6–18 lakhs) to boost the housing sector and creast jobs under it.

II. Rural, Agriculture& Alliedsectors
i. Loans and Investment to Farmers

- Direct Support to Farmers & Rural Economy provided post COVID where moratorium for three months on crop loan payments. Interest subvention and other incentives were extended for three months. About 3 crore farmers to benefited.
- Farmers were sanctioned about 25 lakh new Kisan Credit Cards with a loan limit of Rs. 25,000 cr.
- About 63 lakhs loans worth of Rs. 86,600 croreare approved to Agriculture sector between
- Cooperative Banks & Regional Rural Banks to be provided refinancing of Rs.29,500 crore by NABARD
- NABARD to extend additional refinance support of Rs. 30,000 crore for crop loan requirement of Rural Co-op Banks & RRBs. This would benefit around 3 crore farmers - mostly small and marginal farmers
- Concessional credit worth of Rs 2 lakh crores to be provided to 2.5 crore PM-KISAN beneficiaries through Kisan Credit Cards. Fishermen and Animal Husbandry farmers will also be included in this drive
- The farmers of dairy co-operatives to be provided, interest subvention at the rate of 2% per annum. Additionally, interest subvention of 2 % per annum to be provided to them on prompt payment/interest servicing. This would benefit about 2 crore farmers worth of Rs 5,000 crores.

ii. Measures for Horticulture Sector

- Herbal cultivation to be promoted through National Medicinal Plants Board (NMPB) in 10 lakh hectares with an outlay of Rs 4000 crore. NMPB to develop corriodors of medicinal plants along the banks of Ganga.
- Government to start a scheme related to Beekeeping for increasing the yield and quality of crops through pollination. This scheme includes development of infrastructure related to Integrated Beekeeping Development Centers, Collection, Marketing and Storage centers, Post Harvest& Value addition facilities etc. This is to benefit 2 lakh beekeepers and quality honey to consumers.
- TOP to TOTAL scheme where Operation Greens scheme to be extended from Tomatoes, Onion and Potatoes (TOP) to ALL fruits and vegetables (TOTAL) with an outlay of Rs 500 crores by giving 50% subsidy on transportation from surplus to deficient markets and 50% subsidy on storage including cold storages.
- Realse of funds of Rs 6,000 to Compensatory Afforestation Management & Planning Authority (CAMPA) for the purpose of Afforestation and plantation works, regeneration of greenery, soil & moisture conservation works, Forest protection, forest and wildlife related infrastructure development, wildlife protection and management etc. This will create job opportunities in urban, semi-urban and rural areas including tribal areas

iii. Measures for Allied Sector – Dairy, Fisheries

- Fisheries sector to be provided several benefits related to imports of Shrimp Broodstock, extension of registration of Shrimp hatcheries, relaxation of norms in operation of marine capture fisheries and aquaculture to cover inland fisheries.
- Government to launch the Pradhan Mantri Matsya SampadaYojana (PMMSY) for integrated, sustainable, inclusive development of marine and inland fisheries. An amount of rs 20,000 would be spent for this purpose where Rs 11,000 Cr for activities in Marine, Inland fisheries and Aquaculture and Rs. 9000 Cr for the development of Infrastructure - Fishing Harbours, Cold chain, Markets etc. This scheme is expected to create employment of about 55 lakh persons and double the fish export to Rs 1 lakh crores.
- National Animal Disease Control Programme for Foot and Mouth Disease (FMD) and Brucellosis scheme was launched with total outlay of Rs. 13,000 crores. This is to ensures 100% vaccination of cattle, buffalo, sheep, goat and pig population (total 53 crore animals) for Foot and Mouth Disease (FMD) and for brucellosis.
- An Animal Husbandry Infrastructure Development Fund of Rs. 15,000 crore to be set up to support private investment in Dairy Processing, value addition and cattle feed infrastructure and to provide incentives for establishing plants for exports of niche products.

iv. Measures for Agricultural Infrastructure and Agribusiness

- Micro Food Entreprises (MFE) in unorganized sector to be formalized with the allocation of Rs 10,000 crores to benefit about 2 lakh MFEs. This is expected to improve the health and safety standards in MFEs and integrate them with retail markets and improved income.
- States to get the support of Rs. 4,200 crore for Rural Infrastructure Development Fund for rural infrastructure
- State Government entities to get working capital limit of Rs. 6,700 crore for procurement of agriculture produce
- Financing facility of Rs. 1 lakh crore to be provided for funding Agriculture Infrastructure Projects at farm-gate & aggregation points to benfet farmers in Primary Agricultural Cooperative Societies, Farmers Producer Organisations, Agriculture entrepreneurs, Startups, etc. to develop the post harvest management infrastructure.
- Agricultural Marketing reforms in the aspects of Essential Commodities Acts and APMCs to be brought . But, later these reforms were withdrawn due to protest by the farmers across the country.

III. Industry, Infrastructure Sector

i. Measures for MSME sector

- MSMEs to be given Rs 3 lakh crores Collateral-free Automatic Loans .Stressed MSMEs to be given Rs 20,000 crores as Subordinate Debt . Rs 50,000 cr. Equity infusion for MSMEs through Fund of Funds
- New definition of MSMEs by raising the investment limit with additional criteria of turnover introduced.Revised MSME Classification Composite Criteria is as followsMicro Manufacturing & Service unit: Investment <Rs. 1 cr. and Turnover < Rs.5 cr, Small Manufacturing & Service unit: Investment<Rs. 10 cr. and Turnover < Rs.50 cr. Medium Manufacturing & Service unit: Investment<Rs. 20 cr. and Turnover < Rs.100 cr.
- No global tenders for government contracts up to Rs 200 crore to benefit the MSMEs

- MSME dues to be cleared within 45 days.

ii. Measures for Promotion of Investment and Infrastructure

- Policy Reforms to fast-track Investment –Effort towards Atmanirbhar Bharath through Empowered Group of Secretaries (EGoS).
- There shall be Ranking of States on Investment Attractiveness to compete for new investments
- Extension of 'Make in India' for Self-Reliance in Defence Production. FDI limit in the defence manufacture sector 'under automatic route to be raised from 49% to 74%
- Development of world –class Airports through Public-Private Partnership (PPP)
- Effrorts to be made for India to become a global hub for Aircraft Maintenance, Repair and Overhaul (MRO) and rationalization of tax regime for MRO ecosystem
- Private sector investment to be boosted in social infrastructure through revamped Viability Gap Funding Scheme with the outlay of Rs 8100 crore.
- Schemes to be started for upgradation of industrial infrastructure through industrial cluster upgradation

iii. Measures for Energy and Mining Sector

- Relief package of Rs 90,000 crore was announced for the for Power utilities through liquidity infusion Extension of Registration and Completion Date of Real Estate Projects under RERA
- Take up tariff policy reforms in power sector related to consumer rights in DISCOM, progressive reduction in cross subsidies and introduction of DBT for subsidy. Power department/utilities in Union territories to be privatized.
- Reforms to be taken up in atomic energy sector through establishment of research reactor in PPP mode and create start-up ecosystem for technology development cum incubation centers in nuclear energy sector.
- Introduction of incentive schemes for Promotion of New Champion Sectors such as Solar PV manufacturing; Advanced cell battery storage; etc.
- Private sector participation be encouraged at big scale by creating a level plying field for private sector in satellite launches and space based services.
- Introduction of Commercial Mining in Coal Sector to introduce competition, transparency and private sector participation in the Coal Sector through revenue sharing mechanism and liberalization entry in new blocks. The efforts are on to achieve self-reliance in coal production in the country and introduced the commercial mining in coal sector. This includes investment of Rs 50,000 crore for the development of infrastructure in coal sector.
- Government to remove the distinction between captive and non-captive mines to allow transfer of mining leases and sale of surplus unused minerals, leading to better efficiency in mining and production.

IV. Financial Sector Measures

i. Measures for Banks

- Reduction of Cash Reserve Ratio (CRR) has resulted in liquidity enhancement of ₹1,37,000 crores

- Increased the banks' limit for borrowing overnight under the marginal standing facility (MSF), allowing the banking system to avail an additional ₹1,37,000crore of liquidity at the reduced MSF rate.

ii. Measures for NBFCs and Corporates

- Targeted Long Term Repo Operations (TLTROs) of ₹1,00,050crore for fresh deployment in investment grade corporate bonds, commercial paper, and non-convertible debentures.
- TLTRO of Rs.50,000crore for investing them in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, and MFIs.
- For loans by NBFCs to commercial real estate sector, additional time of one year has been given for extension of the date for commencement for commercial operations (DCCO)
- NBFCs/ HFCs/MFIs were provided the relief of Rs 30,000 crore through liquidity infusion
- The partial credit guarantee scheme for NBFCs worth of Rs 45,000 crore was announced.
- Announced special refinance facilities to NABARD, SIDBI and the NHB for a total amount of ₹50,000 crore at the policy repo rate
- Announced the opening of a special liquidity facility (SLF) of ₹50,000 crore for mutual funds to alleviate intensified liquidity pressures.
- Moratorium of three months on payment of installments and payment of Interest on Working Capital Facilities in respect of all Term Loans
- RBI raised the Ways and Means advance limits of States by 60% and enhanced the Overdraft duration limits.

VII. Social Sector and Governance

- Many reforms and initiatives to be taken up in health sector by increasing the investment in public health. This includes ramp up health and wellness centres in rural and urban area, construction of integrated public health labs in all districts and blocks, encouraging research in health sector and implementation of National Digital Health Mission.
- Promotion of technology driven education with equity in post COVID period through the initiatives of PMeVIDYA –a digital multi-model digital/online education, new national curriculum and pedagogical framework for school, early childhood and teachers.
- Reforming Governance for Ease of Doing Business: For this government is working on a mission mode on for making easy registration of property, fast disposal of commercial disputes and simpler tax regime for making India one of the easiest places to do business.
- Measures to be taken up through IBC (Insolvency and Bankruptcy Code) by raising the limit of turnover to Rs 1 crore to initiate the insolvency proceedings and notification of special insolvency resolution framework for MSMEs.
- Decriminalization of Companies Act violations involving minor technical and procedural defaults like shortcomings in CSR reporting, inadequacies in board report, filing defaults, delay in holding AGM).
- Bringing a new Public sector Enterprise Policy (PSE) for new and self-reliant India where all the sector are open to the private sector while PSEs play an important role in defined areas. All the sectors including the strategic sectors will be allowed private sector while keeping at least keep on PSEs. PSEs to be privatized in non-strategic sectors.

- The borrowing limits of the State governments to be enhanced from 3% to 5% of GSDP to get additional resources of Rs4.28 lakh crores. But this is linked to reforms in four areas such as universalization of 'One Nation One Ration card', Ease of Doing Business, Power distribution and Urban local body revenues.

In conclusion, the central government had started many economic initiatives in the form of Atmanirbhar Bharat Abhiyan to help COVID-19 crisis effected economy and people to overcome it. The Atmanirbahar Bharat Abhiyan contains emergency and short term measures to tide over the COVID-19 economic crisis and long term reformist measures to boost the local economy to become self-reliant in future. Hence Atmanirbahar Bharat Abhiyan can be termed as Mini Economic Reform policy after three decades of economic reforms in 1991. The main concern about these mini reforms is proper allocation of designated funds of Rs 20 Lakh CroresThe results show that, when compare to world economies, Indian economy could come out of COVID-19 crisis little early and economy is back into relatively higher growth path of 6 per cent. However, it is essential to ensure the aspects of inclusiveness and social justice in their outcomes.

12.4 SUMMARY

This chapter studied the Economic Reforms 1991 and Economic Initiatives during COVID-19 crisis in the form of Atmanirbhar Bharat Abhiyan/package. The economic reforms in India have changed the face of Indian economy from the controlled economy to market economy and pushed the economy into high growth path. But economic reforms had not done much to the aspects of inclusiveness and social justice in the country. However the reforms gave hope to the Indian economy to become developed nation by 2047 when India will celebrate the centenary of its independence.

The central government had started many economic initiatives in the form of Atmanirbhar Bharat Abhiyan to help COVID-19 crisis effected economy and people to overcome it. The Atmanirbhar Bharat Abhiyan contains emergency and short term measures to tide over the COVID-19 economic crisis and long term reformist measures to boost the local economy to become self-reliant in future. Hence, Atmanirbhar Bharat Abhiyan can be termed as Mini Economic Reform policy after three decades of economic reforms in 1991. The main concern about these mini reforms is proper allocation of designated funds of Rs 20 Lakh Crores to the all the sectors. The results show that, when compare to world economies, Indian economy could come out of COVID-19 crisis little early and economy is back into relatively higher growth path of 6 per cent. However, it is essential to ensure the aspects of inclusiveness and social justice in the outcomes of economic reforms of any time.

12.5 KEY WORDS

Economic Crisis: Economic crisis is the situation in an economy where there has been rise in economic problems like public debt, collapse of banking sector, BoP crisis, inflation, unemployment, poverty etc.

Balance of Payment crisis: Crisis in BoP is when there is shortage of foreign reserves to be paid for the imports bills because of deficits in current account and non-debt capital account.

Fiscal Imbalance: Fiscal imbalance is the situation where there rise in fiscal deficits, revenue deficits, increase in public debt and non-productive expenditure.

Liberalization: Liberalization means reducing the government interference in the economic activities which include de-licensing and de-reservation of industries, free international trade and capital flows.

Privatisation: Privatisation means allowing the private to operate in the sectors that were earlier reserved for the public sector and selling the share of public sector enterprises (PSE) to the private sector

Globalisation: Glabalisation means integrating the domestic economy with global economy by reducing the restrictions on the flow of goods, services, capital, technology and people between the countries.

Atmanirbahar Bharat Abhiyan: The economic initiatives taken by the central government to make Indian economy to tide over the COVID-19 crisis and become self-reliant in future**.**

12.6 SELF-ASSESSMENT QUESTIONS

1. Discuss the main features of economic reforms 1991 in India.
2. Examine the impact of economic reforms 1991.
3. Discuss the economic initiatives by the government in COVID-19 crisis in India.
4. "'Atmanirbhar Bharat Abhiyan' are mini reforms in 2020 for Indian economy" Elaborate.

12.7 SUGGESTED READINGS

- "Indian Economy" by Ramesh Singh, McGraw Hill Publishers.
- "Indian Economy: Performance and Policies" by Uma Kapila, Academic Foundation Publishers, New Delhi.
- "Indian Economy" by Datt and Mahajan, S. Chand Publications.
- "Indian Economy" by Puri, Mishra and Garg, Himalaya Publishers.
- Various reports of "Economic Survey of India", Govt of India.
- Open source material from eGyanKosh by IGNOU, Khan Academy etc. https://egyankosh.ac.in/.
- Official Websites: Atmanirbhar Bharat Abhiyan: https://aatmanirbharbharat.mygov.in/

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LESSON -13

INDIAN TAX SYSTEM

Aims and Objectives:

After completing the lesson the student is able to

- ✓ Understand Tax structure in India
- ✓ Explain about direct and indirect taxes
- ✓ Analyse the GST system introduced in India

Structure

13.1 Introduction
13.2 Types of Taxes
13.2 Types of Taxes
13.3 Indirect Tax
13.4 Other Taxes
13.5 Goods and Services Tax
13.6 Summary
13.7 Key Words
13.8 Self Assessment Questions
13.9 Reference Books

13.1 INTRODUCTION

The taxation system in India has prevailed for centuries. The government uses the revenue collected through taxes in the development of the nation. Earlier, traders and farmers used to pay taxes in the form of gold, silver and agricultural produce. At the time of independence, the government formalized the taxation system. They presented a well-structured taxation system was presented to Indian citizens, to push economic reform and remove wealth disparity. Over the years, the government has reformed many policies to simplify and automate the taxation process. The authority of the government to levy tax in India is derived from the Constitution of India, which allocates the power to levy taxes to the Central and State governments. All taxes levied within India need to be backed by an accompanying law passed by the Parliament or the State Legislature.

13.2 TYPES OF TAXES

Taxes are of two distinct types, direct and indirect taxes. The difference comes in the way these taxes are implemented. Some are paid directly by you, such as the dreaded income tax, wealth tax, corporate tax etc. while others are indirect taxes, such as the value added tax, service tax, sales tax, etc. But, besides these two conventional taxes, there are also **other taxes** that have been brought into effect by the Central Government to serve a particular agenda. 'Other taxes' are levied on both direct and indirect taxes such as the recently introduced Swachh Bharat Cess tax, Krishi Kalyan Cess tax, and infrastructure Cess tax among others.

13.2.1. Direct Tax

Direct tax, as stated earlier, are taxes that are paid directly by you. These taxes are levied directly on an entity or an individual and cannot be transferred onto anyone else. One of the bodies that overlooks these direct taxes is the Central Board of Direct Taxes (CBDT) which is a part of the Department of Revenue. It has, to help it with its duties, the support of various acts that govern various aspects of direct taxes. Hence, the primary burden and final burden will be on the same person on whom the tax is imposed.

(a) Wealth Tax Act:

The Wealth Tax Act was enacted in 1951 and is responsible for the taxation related to the net wealth of an individual, a company or a Hindu Unified Family. The simplest calculation of wealth tax was that if the net wealth exceeded Rs. 30 lakhs, then 1% of the amount that exceeded Rs. 30 lakhs was payable as tax. It was abolished in the budget announced in 2015. It has since been replaced with a surcharge of 12% on individuals that earn more than Rs. 1 crore per annum. It is also applicable to companies that have a revenue of over Rs. 10 crores per annum. The new guidelines drastically increased the amount the government would collect in taxes as opposed the amount they would collect through the wealth tax.

(b) Gift Tax Act:

The Gift Tax Act came into existence in 1958 and stated that if an individual received gifts, monetary or valuables, as gifts, a tax was to be to be paid on such gifts. The tax on such gifts was maintained at 30% but it was abolished in 1998. Initially if a gift was given, and it was something like property, jewellery, shares etc. it was taxable. According to the new rules gifts given by family members like brothers, sister, parents, spouse, aunts and uncles are not taxable. Even gifts given to you by the local authorities is exempt from this tax. How the tax works now is that if someone, other than the exempt entities, gifts you anything that exceeds a value of Rs. 50,000 then the entire gift amount is taxable.

(c) Expenditure Tax Act:

This is an act that came into existence in 1987 and deals with the expenses you, as an individual, may incur while availing the services of a hotel or a restaurant. It is applicable to all of India except Jammu and Kashmir. It states that certain expenses are chargeable under this act if they exceed Rs. 3,000 in the case of a hotel and all expenses incurred in a restaurant.

(d) Interest Tax Act:

The Interest Tax Act of 1974 deals with the tax that was payable on interest earned in certain specific situations. In the last amendment to the act it was stated that the act does not apply to interest that was earned after March 2000.

(e) Income Tax:

This is one of the most well-known and least understood taxes. It is the tax that is levied on your earning in a financial year. There are many facets to income tax, such as the tax slabs, taxable income, tax deducted at source (TDS), reduction of taxable income, etc. The tax is applicable to both individuals and companies. For individuals, the tax that they have to pay depends on which tax bracket they fall in. This bracket or slab determines the tax to be paid based on the annual income of the assessee and ranges from no tax to 30% tax for the high income groups.The government has fixed different taxes slabs for varied groups of individuals, namely general taxpayers, senior citizens (people aged between 60 to 80, and very senior citizens (people aged above 80).

(f) Capital Gains Tax:

This is a tax that is payable whenever you receive a sizable amount of money. It could be from an investment or from the sale of a property. It is usually of two types, short term capital gains from investments held for less than 36 months and long term capital gains from investments held for longer than 36 months. The tax applicable for each is also very different since the tax on short term gains is calculated based in the income bracket that you fall in and the tax on long term gains is 20%. The interest thing about this tax is that the gain doesn't always have to be in the form of money. It could also be an exchange in kind in which case the value of the exchange will be considered for taxation.

(g) Securities Transaction Tax:

It's no secret that if you know how to trade properly on the stock market, and trade in securities, you stand to make a substantial amount of money. This too is a source of income but it has its own tax which is known as the Securities Transaction Tax . How this tax is levied is by adding the tax to the price of the share. This means that every time you buy or sell shares, you pay this tax. All securities traded on the Indian stock exchange have this tax attached to them.

(h) Perquisite Tax:

Perquisites are all the perks or privileges that employers may extend to employees. These privileges may include a house provided by the company or a car for your use, given to you by the company. These perks are not just limited to big compensation like cars and houses, they can even include things like compensation for fuel or phone bills. How this tax is levied is by figuring out how that perk has been acquired by the company or used by the employee. In the case of cars, it may be so that a car provided by the company and used for both personal and official purposes is eligible for tax whereas a car used only for official purposes is not.

(i) Corporate Tax:

Corporate tax is the income tax that is paid by companies from the revenue they earn. This tax also comes with a slab of its own that decides how much tax the company has to pay. For example a domestic company, which has a revenue of less than Rs. 1 crore per annum, won't have to pay this tax but one that has a revenue of more than Rs. 1 crore per annum will have to pay this tax. It is also referred to as a surcharge and is different for different revenue brackets. It is also different for international companies where the corporate tax may be 41.2% if the company has a revenue of less than Rs. 10 million and so on.

There are four different types of corporate tax.

- **Minimum Alternative Tax:**

Minimum Alternative Tax, or MAT, is basically a way for the Income Tax Department to get companies to pay a minimum tax, which currently stands at 18.5%. This form of tax was brought into effect through the introduction of Section 115JA of the Income Tax Act. However, companies involved in infrastructure and power sectors are exempt from paying MAT. Once a company pays the MAT, it can carry the payment forward and set-off (adjust) against regular tax payable during the subsequent five-year period subject to certain conditions.

- **Fringe Benefit Tax:**

Fringe Benefit Tax, or FBT, was a tax which applied to almost every fringe benefit an employer provided to their employees. In this tax, a number of aspects were covered. Some of them include:

i) Employer's expense on travel (LTA), employee welfare, accommodation, and entertainment.

ii) Any regular commute or commute related expense provided by an employer.

iii) Employer's contribution to a certified retirement fund.

iv) Employer Stock Option Plans (ESOPs).

FBT was started under the Indian government's stewardship from April 1, 2005. However, the tax was later scrapped in 2009 by the-then Finance Minister Pranab Mukherjee during the 2009 Union Budget session.

- **Dividend Distribution Tax:**

Dividend Distribution Tax was introduced after the end of 2007's Union Budget. It is basically a tax levied on companies based on the dividend they pay to their investors. This tax is applicable on the gross or net income an investor receives from their investment. Currently, the DDT rate stands at 15%.

- **Banking Cash Transaction Tax**:

Banking Cash Transaction Tax is yet another form of tax that has been abandoned by the Indian government. This form of taxation was operation from 2005-2009 until the then FM Pranab Mukherjee nullified the tax. This tax suggested that every bank transaction (debit or credit) would be taxed at a rate of 0.1%.

13.2.2 Merits and Demerits of Direct Taxes

Let us make an in-depth study of the merits and demerits of direct taxes.

(A) Merits:

1. Equity:

A direct tax is an equitable tax. Through it the rich can be made to pay more than the poor. In case of necessity, the poor people can be granted exemption from payment of such taxes. A direct tax is equitable in the sense that it is levied according to the taxable capacity of the people. The rates of direct taxes, like the income tax, can be fixed in such a way that the higher the income of a man, the greater is the rate at which he has to pay the tax. Such a system is known as progressive taxation.

2. Certainty:

A direct tax satisfies the canon of certainty. For instance, a person liable to pay income tax knows how much he will be required to pay; for that purpose he can appropriate steps beforehand.

3. Elasticity:

A direct tax has elasticity. It can be varied according to the needs of the government and changes in the income of the people. When the income of the people goes up, the rate of income tax can also be increased. If the income of the people falls, the rate of income tax can also be lowered.

4. Productivity:

Direct taxes constitute an important source of government revenue. Their collection charges are also low. Therefore, direct taxes are productive.

5. People's Consciousness:

A direct tax increases the civic sense of the people. When the people are fully aware of the payment of taxes, they are also conscious of the way the government spends the money. They resent unproductive or wasteful expenditure. As a result, the government becomes careful in its expenditure.

(B) Demerits:

But direct taxes have certain demerits or defects, too. These are:

1. Lack of Popularity:

First, such taxes are not very popular, because the people have to bear the burden of such taxes directly. That is why, when the rate of a direct tax is raised, most people express their resentment against the government. For instance, when the rate of personal income tax or corporate profit tax is raised, criticism from those affected becomes very strong.

2. Evasion:
The second disadvantages of a direct tax is that it is liable to be evaded. By submitting false returns, many people try to evade income tax. Unless the civic sense of the people is well — developed and there is spread of education among them, the administration of direct taxes is very difficult.
3. People's Indifference:
The third disadvantage of a direct tax is that it does not develop the civic sense of those who do not pay such taxes. In the case of income tax, people with incomes below a certain level are not liable to pay tax. In a low-income country like India, the majority of the people are not required to pay income tax. When a man directly bears the burden of a tax, he tries to know how the government spends that money. Those who are not directly affected by the burden of taxation remain indifferent as to the way the public expenditure is incurred.
4. Disincentive to Work and Save:
Another disadvantage of direct taxes is that they reduce the desire to work and save. The rate of direct taxes are usually high. Many business ventures are not undertaken on the ground that a large part of the income earned will have to be given to the government in the form of taxes. Thus, direct taxes reduce incentives to work hard and save.

13.3 INDIRECT TAX
By definition, indirect taxes are those taxes that are levied on goods or services. They differ from direct taxes because they are not levied on a person who pays them directly to the government, they are instead levied on products and are collected by an intermediary, the person selling the product. The most common examples of indirect tax Indirect tax can be VAT (Value Added Tax), Taxes on Imported Goods, Sales Tax, etc. These taxes are levied by adding them to the price of the service or product which tends to push the cost of the product up. In this case primary burden will be on Person-X and final burden will be on Person-Y.
Examples of Indirect Taxes:
These are some of the common indirect taxes that you pay.
a) Sales Tax:
As the name suggests, sales tax is a tax that is levied on the sale of a product. This product can be something that was produced in India or imported and can even cover services rendered. This tax is levied on the seller of the product who then transfers it onto the person who buys said product with the sales tax added to the price of the product. The limitation of this tax is that it can be levied only ones for a particular product, which means that if the product is sold a second time, sales tax cannot be applied to it. Basically, all the states in the country follow their own Sales Tax Act and charge a percentage indigenous to themselves.
b) Service Tax:
Like sales tax is added to the price of goods sold in India, so is service tax added to services provided in India. In the reading of the budget 2015, it was announced that the service tax will be raised from 12.36% to 14%. It is not applicable on goods but on companies that provide services and is collected every month or once every quarter based on how the services are provided. If the establishment is an individual service provider then the service tax is paid only once the customer pays the bills however, for companies the service tax is payable the moment the invoice is raised, irrespective of the customer paying the bill.
GST - Goods and Service Tax:
The Goods and Services Tax (GST) is the largest reform in India's indirect tax structure since the market started opening up about 25 years ago. The GST is a consumption-based tax, as it is applicable where consumption takes place. The GST is levied on value-added goods and

services at each stage of consumption in the supply chain. The GST payable on the procurement of goods and services can be set off against the GST payable on the supply of goods and services, the merchant will pay the applicable GST rate but can claim it back through the tax credit mechanism.(Detailed analysis is presented at Point 13.5)

c) Value Added Tax:

VAT, also known as commercial tax is not applicable on commodities that are zero rated (eg. food and essential drugs) or those that fall under exports. This tax is levied at all the stages of the supply chain, right from the manufacturers, dealers and distributors to the end user.

d) Custom duty & Octroi:

When you purchase anything that needs to be imported from another country, a charge is applied on it and that is the customs duty. It applies to all the products that come in via land, sea or air. Even if you bring in products bought in another country to India, a customs duty can be levied on it. The purpose of the customs duty is to ensure that all the goods entering the country are taxed and paid for. Just as customs duty ensures that goods for other countries are taxed, octroi is meant to ensure that goods crossing state borders within India are taxed appropriately. It is levied by the state government and functions in much the same way as customs duty does.

e) Excise Duty:

This is a tax that is levied on all the goods manufactured or produced in India. It is different from customs duty because it is applicable only on things produced in India and is also known as the Central Value Added Tax or CENVAT. This tax is collected by the government from the manufacturer of the goods. It can also be collected from those entities that receive manufactured goods and employ people to transport the goods from the manufacturer to themselves.

13.3.1 Merits and Demerits of Indirect Taxes

Let us make an in-depth study of the merits and demerits of indirect taxes.

(A) Merits:

1. Wide Coverage:

The main merit of an indirect tax is that it touches all income groups. Direct tax, like income tax, is imposed on persons having a certain minimum level of income.

People having income below that level are exempted from the payment of tax. But indirect taxes, such as sales tax or excise duty, are equally imposed on all consumers or purchasers irrespective of their incomes.

2. Consumption Control:

By imposing an indirect tax, the consumption of an undesirable thing can be discouraged. For example, by imposing excise duties on wine and opium, the government discourages the consumption of such harmful products.

3. Popularity:

People are not always conscious of indirect taxes because, in most cases, it is combined with the price. When people purchase cinema tickets they may well remain un-ware of the fact that the price of a ticket also includes the amusement tax. Again, the price of a match-box includes the excise duty imposed on it.

But the consumer does not at all bother to know how much he is paying as price and how much he is paying as an indirect levy. He thinks that he is paying the price, although he pays the indirect tax, too. He is not, therefore, consciously affected by the indirect tax and so he does not resent it much.

4. Productivity:

Like a direct tax, an indirect tax also enlarges the revenue receipts of the government. Indirect taxes in India today provide the bulk of government revenue. Such taxes have been imposed on sugar, cooking gas, textiles, shoes, petrol, cigarettes, and many other essential articles of consumption. By the levy of indirect taxes, the tax net is cast wider and all people are made to contribute to the national fund.

(B) Demerits:

But indirect taxes have certain demerits also.

These are the following:

1. Regressive Character:

The main drawback of an indirect tax is that it is now an equitable tax. It is regressive in nature. It affects the poorer section more than the rich. A commodity tax imposed on foodstuff will affect a poorer family in a much greater degree than a rich family. A poor man feels the burden of a sales tax much more than a rich man. A rich man does not at all mind paying a few rupees as sales tax, but a poor man is greatly burdened by it.

2. Administrative Difficulties:

Indirect taxes create various administrative problems. The collection of an indirect tax like customs duty often involves large expenses. There is also the possibility of evasion. In India, it is well known that dealers evade the payment of sales tax to the government, although they realise it from their customers.

13.4 OTHER TAXES

While direct and indirect taxes are the two main types of taxes, there are also these small cess taxes that are also seen in the country. Although, they aren't major revenue generators and are not considered to be as such, these taxes help the government fund several initiatives that concentrate on the improving the basic infrastructure and maintain general well being of the country. The taxes in this category are primarily referred to as a cess, which are taxes levied by the government and the funds generated through this are used for specific purposes as per the Finance Minister's discretions.

a) Professional Tax:

Professional Tax, or employment tax, is another form of tax levied only by state governments in India. According to professional tax norms, individuals earning income or practicing a profession such as a doctor, lawyer, chartered accountant, or company secretary etc. are required to pay this tax. However, not all states levy professional tax and the rate differs across all the states that levy the tax.

b) Property Tax - Municipal Tax:

Also known as Property Tax or Real Estate Tax, this is one of the taxes levied by local municipal bodies of every city. These taxes are levied in order to provide and maintain the for basic civic services. All owners of residential or commercial properties are subject to Municipal Tax.

c) Entertainment Tax:

Entertainment Tax is yet another type of tax commonly seen in India. It is levied by the government on feature films, television series, exhibitions, amusement, and recreational parlours. This tax is collected taking into account a business entity's gross collection collected from earnings based on commercial shows, film festival earnings, and audience participation.

d) Stamp Duty, Registration Fees, Transfer Tax:

Stamp duty, registration fees, and transfer taxes are collect as a supplement of property tax. For instance, when an individual purchases a property, they also have to pay for the cost of stamps (stamp duty), registration fees (fee charged by local registrar to legalize a property transaction), and transfer tax (tax paid to transfer the ownership of a commodity.

e) Education Cess/Surcharge:

Education cess is a tax in India primarily introduced to help cover the cost of government-sponsored educational programs. This tax is collected independently of other taxes and is applicable to all Indian citizens, corporations, and other people living in the country. The effective rate of education cess currently stands at 2% of an individual's income.

f) Toll Tax & Road Tax:

Toll tax is a tax you often pay to use any form of infrastructure developed by the government, example roads and bridges. The tax amount levied is rather negligible which is used for maintenance and basic upkeep of a particular project.

g) Swachh Bharat Cess:

This is a cess imposed by the government of India and was started from 15 November 2015. This tax is applicable on all taxable services and the cess currently stands at 0.5%. Swachh Bharat cess is levied over and above the 14% service tax that is prevalent in the present times. One thing worth noting here is that this cess is not applicable on services that are fully exempt of service tax or those services covered under the negative list of services. It is collected by the Consolidate Fund of India and will be used to funding and promoting any government campaigns concerning the Swachh Bharat initiatives. This tax, however, is independent of service tax and is charged as a separate line item in invoices.

h) Krishi Kalyan Cess:

This is yet another cess brought about by the government of India since the June of 2016. It is basically introduced in order to extend welfare to all the farmers and to the improvement of agricultural facilities in the country. Like Swachh Bharat cess, this tax is also applicable on all taxable services with an effective rate of 0.5% and is charged over and above the service tax and Swachh Bharat cess.

i) Infrastructure Cess :

Infrastructure cess is another tax brought into effect from the 1st of June 2016. Under this tax, a cess of 1% is applicable on petrol/LPG/CNG-driven motor vehicles which are 4 meters or less in length and 1200cc or less in engine capacity. In case the diesel motor vehicles which don't exceed the 4 metre length and have engines with capacities less than 1500cc, a tax of 2.5% is to be paid. For big sedans and SUVs, the cess stands at 4% of the overall cost of the vehicle.

j) Entry Tax:

Entry tax is a tax levied in select states across the country like Uttarakhand, Madhya Pradesh, Gujarat, Assam, and Delhi. Under this, all items entering the state ordered via e-commerce establishments are taxed. The rate for this tax varies between 5.5% to 10%.

These are all the types and kinds of taxes that are present in India's current economic scenario. The funds collected from these methods don't just fuel the country's revenues but also provides the much-needed impetus to help the lower classes prosper.

13.5 GOODS AND SERVICES TAX

GST is known as the Goods and Services Tax. It is an indirect tax which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. In other words, Goods and Service Tax (GST) is levied on the supply of goods and services. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition**.** GST is a single domestic indirect tax law for the entire country.

Advantages – The pros of GST

Let us take the various benefits as introduced by GST in our indirect taxation system one by one

1. **Classification has become easier**
   One of the persistent issue in old tax practices was the classification of a product in good or service. The tax implications and liability were majorly dependant upon this classification. Resultantly, it had both, an open route for litigation and huge operational inconveniences.
   Gst has resorted all such issues by introducing the one and only concept of supply. The taxation under GST is based upon the concept of supply and not upon the classification into goods or services. If a transaction does not fall into the ambit of supply it will not be taxable under GST.
2. **Better Compliances and tracking**
   Since the procedures and compliances have radically concised with implementation of GST, it has bought harmony in numerous compliances previously required. Before GST there were many laws each having its own set of procedures, legal requirements and due dates. Gst has subsumed all major taxes and has resultantly reduced the compliance under on the taxpayer. Also, enabled easy monitoring and tracking of defaults or non compliances.
3. **Single window clearances (SWC)**
   Multiple legal compliances under different legislatures required lot of efforts and time. GST being the one indirect tax has opened up a way to single window clearance. Now the taxpayer can focus more on its core business as legal norms only under one statue would be needed to be adhered.
4. **Complete set off of ITC:**
   Before introduction of GST a complex set of procedure was being followed for set off of Input tax Credit. Goods and Services Tax being a single tax regime both at Central Level (CGST) and State Level (SGST / UTGST) has proved to be a boon for the taxpayers by ensuring maximum input credit set offs.
5. **The Dual GST Model:**
   India being a federal country has adopted GST in its dual model. Which means the GST is levied simultaneously by both as per central government laws and as per state government laws as well. Currently tax is being imposed on inter state supply by the central government and simultaneously by state and central government on intrastate supplies. GST applies to whole of India including the state of Jammu and Kashmir
6. **Easy catch on Tax Evasions**
   GST has proved out to be a helping hand of government in keeping effective and improved catch on tax evasions. One of the prominent evidences of the same are increased numbers of tax revenue. Evasion tracking has been made simpler with reduction in procedural requirements and subsuming of various laws into GST.
7. **Removal of Deficiencies in the existing VAT system**
   Various ills of Value Added System as mentioned under have been overcome with implementation of GST,(1)The non inclusion of several local taxes in the state VAT law. Like luxury tax, entertainment tax etc; (2) Existence of cascading effect due to Non VATable CST and CENVAT was imposed over the value of VAT

8. **Mitigation of cascading effect**
One of the major drawbacks in the indirect tax system was the cascading effect i.e. tax imposed on taxes paid on an earlier stage. For an example: A manufacturer was required to pay excise on raw materials + VAT was also imposed when the finished goods were sold. The excise so paid at earlier stage formed part of the cost of raw material and hence when final payout for VAT was made it included a component of excise on which VAT is being paid.GST has given freedom to taxpayers form this biggest ill of the tax system.

9. **Composition scheme for small businesses**
Under GST Small businesses with an aggregate turnover of Rs 20 lakh to Rs 1 crore can be benefited. The composition scheme gives an option to pay taxes at lower rates. The taxpayer can opt for composition scheme if the turnover does not exceed Rs 75 lakh in the north eastern states of Arunachal Pradesh, Assam, Manipur,Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Himachal Pradesh. For the rest including Uttarakhand and Jammu Kashmir the turnover limit will be Rs 1 crore. A person crossing such limit cannot take benefit of composition levy and would be required to pay taxes as per the normal provisions.

10. **GST positive impact on SMEs and startups**
With the rolling out of GST SMEs and startups are said to be benefited in multiple ways. Find below a brief about the dimension in which SMEs and startups have been benefited by GST

    - Ease of starting business by lower compliances
    - Reduced tax burden on new businesses
    - Improved and faster logistics enabling efficiency in delivery and saving costs
    - Easier compliances by elimination of distinction between goods and services

11. **Ease of starting business**
A business which operates in different states and territories was previously required to comply with multiple laws. The centralised registration enabled by GST will make the setting up of new business easier and also effective by reduction in costs. Also, the procedural requirements thereafter would zero down by a single law.

12. **Reduced tax burden on new businesses**
Previously, business having turnover more than Rs 5 lakhs were required to take registration under VAT. But this ceiling under GTS has been extended to Rs 20 lakhs. Which has given relief to over 60% of SMEs

13. **Improved and faster logistics**
GST has abolished the entry tax for goods manufactured and sold in any part of India. Which will enable smooth and faster transportation of goods by reduction in waiting time on check posts. This will in turn boost the economy by saving huge transportation costs and time.

14. **Easier compliances**
GST follows one simple concept of supply and taxability under GST depends over the same. Previously, lot of hassle and litigations were involved in deciding whether a transaction falls under the ambit of goods or service. The taxation aspect was majorly dependent upon such classification. The ambiguity has been resolved by the newly introduced GST regime.

15. Increased product competitiveness

GST being a welcome step towards reduction in overall costs of production supply and at all stages, will over the time have substantial effect in making the Indian products competitive in international market resulting from reduced prices.

Many countries have already switched their tax models to GST and India being a way forward the same is expected to achieve the incidental benefits in future.

Disadvantages – The cons of GST

1. Higher tax burden on SMEs

The hardship for SME in terms of taxes payout seems to build stronger under GST due to the following reasons

- Registration limits under the previously prevalent excise law ie.. Rs 1.5 Crores was much higher than the current GST threshold of Rs 20 / 40 lakhs
- Although the taxpayers having turnover upot the extent of Rs 1 crore can still opt for composition levy. But, the same brings with itself the in build repercussions like
- Non issue of VAtable invoices
- Non availment of ITC
- Not able to pass on the tax credit etc

2. Higher tax rates

Previously, on service the service tax was levied at 15% tax rate but now if the same falls under the GST tax rate category of 18% then the resultant pay out form the taxpayers pocket seems to have increased. The same has already shown its effect in the sectors like telecom, airlines, banking etc.

3. Compliances in the middle of the financial year

GST was rolled out in India from 1st July 2017 and the financial year was started from 1st april 2017. The implementation of GST has led to huge inconvenience on the part of taxpayers. As normally it is witnessed that the tax planning is done well in advance for the particular financial year and shifting to a completely new tax regime which is being introduced for the first time is a challenging acceptance in itself. This left the taxpayers confused and a lot of operational difficulties arose.

4. Not all goods covered

Petrol being the key product still remains out of the ambit of GST. It has become one of the major controversial issue. Because crude oil being a commodity of general and vast usage is still acquainted with higher prices and no relaxation in the same has been provided with the implementation of GST.

5. Taxation becoming Online

Though with the technology getting pace in all sectors an online taxation reform is welcomed. But, everything comes with a cost. So does this!! Considering the user base online taxation reform has left people helpless and being dependent upon experts. The online form, online registration and all compliances being done online has increased costs of softwares, installations and requisite staff to the businessman.

6. Excessive compliance burden:

The number of tax returns to be filed under GST is enormous. Three periodic returns are required to be filed monthly. Not only that if a person is doing business in multiple states then it needs to obtain multiple registrations for each state and separate GST returns needs to be filed for each state. This structure of GST has increased compliance burden and it is causing pain mainly for small businesses which cannot spend high costs on support functions like accounting and taxation etc.

7. **Blockage of Working capital**

Working capital is the essence of every business. Implementation of GST has led to shortening of available funds in the hands of business. The exporters are not able to claim the tax refunds till date even after so much time after implementation of GTS has already lapsed. Even the traders are facing issue in claiming their transitional refund due to procedural difficulties and even striving harder to mitigate the shortages of operating funds due to rolling out of this new taxation reform. Also, the increased rate of GST in service sector has further increased the payouts by 3% as GST @18% is payable in exception to the old 15% service Tax.

13.6 SUMMARY

The resilience exhibited by economic growth underpins the sustained revenue buoyancy observed over the years. However, that revenues have grown at a pace much higher than the growth in GDP is a testimony to the effectiveness of efforts taken by the government to expand the tax base and enhance tax compliance. Structural reforms like the introduction of GST and the digitalisation of economic transactions have led to the greater formalisation of the economy and hence expanded the tax net. Other tax administration/policy measures, such as the Faceless Assessment and Appeal, simplification of return filing, assistance to taxpayers in getting familiar with the systems, generation of e-way bills under the GST system, and information sharing between government departments among others, have nudged higher tax compliance through technology and artificial intelligence.

13.7 KEY WORDS

1. Cascading effect : A cascading effect is when there is a tax levied on a product or service at every stage of production. The tax that is levied on the value includes the tax that was paid by the previous buyer. This means that the consumer ends up paying tax on tax that was already paid.

2. Cess: Cess is a tax that is generally levied for promoting services like health and education. Governments often charge cess for the purpose of development in social sectors.

3. Tax: A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. The collected fund is then used to fund different public expenditure programs.

4.Tax incidence : Tax incidence" (or incidence of tax) is an economic term for understanding the division of a tax burden between stakeholders, such as buyers and sellers or producers and consumers. Tax incidence can also be related to the price elasticity of supply and demand.

5. Octroi duty : It is the tax levied by local or state governments on certain categories of goods as they enter the area. It is a charge for allowing transit of good through the jurisdiction.

13.8 SELF ASSESSMENT QUESTIONS

Essay typed questions:

1.Explain the various Direct taxes levied in India
2. Evaluate the structure of Indirect Tax system in India.
3. Critically evaluate the GST in India.

Short answer questions:

1. Merits of direct taxes
2. Demerits of direct taxes
3. Merits of Indirect taxes
4. Demerits of Indirect taxes

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LESSON – 14

PUBLIC EXPENDITURE AND PUBLIC DEBT

Aims and Objectives :

After completing this lesson, the student is able to understand the following :

- What is Public expenditure and its classification
- What are the trends in Public expenditure and reasons for growth
- What is Public debt and its classification
- What are the advantages and disadvantages of Public debt
- What are the trends of public debt in India and
- What are the various methods of redemption of Public debt.

Structure

14. 1 Introduction to Public Expenditure
14.2 Classification of Public Expenditure
14.3 Approaches to Theories of Public Expenditure
14.4 Trends in Public Expenditure in India
14.5 Trends in Developmental and Non-Developmental Expenditure
14.6 Trends in Revenue and Capital Expenditure
14.7 Expenditure Trends During Post Covid
14.8 Causes of Growth of Public Expenditure in India
14.9 Introduction to Public Debt
14.9.1 Classification of Public Debt
14.9.2 Advantages of Public Debt
14.9.3 Disadvantages of Public Debt
14.9.4 History of Public Debt in India
14.10 Methods of Redemption of Public Debt
14.11 Summary
14.12 Key Words
14.13 Self Assessment Questions
14.14 Suggested Readings

14. 1 INTRODUCTION TO PUBLIC EXPENDITURE

Public expenditure is expenditure by the government on various government activities and social sector services. Public expenditure is necessary for supporting the economy and economic activities. The purpose of public expenditure is not limited to providing essential goods and services but also it provides employment and liberal rights to use to its population. In almost every type of economy, whether it is socialist, capitalist or mixed, government participates in various economic activities directly and indirectly. Also, the government is responsible for establishing the welfare state in a country. This results in huge expenditure or investment by the government. Developing countries are generally characterized by lower socio-economic indicators, and widespread poverty and inequality. Thus, developing countries require a higher level of public expenditure to accelerate its economic growth social indicator.

The Indian economy is a mixed type of developing economy where both public and private sectors participation in economic activities and hence needs huge public expenditure in social and infrastructure sector. The tax to GDP ratio in India is very low and the government is not able to provide sufficient fund for various public works. The major components of public expenditure in India is unproductive in nature such as interest payments, defence, pensions, salaries, subsidies etc., collectively account for more than 60 per cent of total public expenditure.

The increasing need for public expenditure and insufficient fund with the government raises the need for better utilization of public expenditure and efficient management of fiscal deficit. The government has taken several initiatives to improve efficiency and utilization of defence expenditure, encouraging private sector participation in this sector and promoting self-reliance. For the purpose of managing the fiscal deficit, the government implemented Fiscal Responsibility and Budgetary Management (FRBM) Act 2003, which aims to maintain the fiscal deficit at 3 per cent.

14.2 CLASSIFICATION OF PUBLIC EXPENDITURE

Article 112 of the constitution of India mandates that the government has to prepare an estimate of all past and prospective expenditure in the form of a budget document and present it in front of parliament for approval. This document classifies different types of expenditure under different categories. Following are the categories of public expenditure.

(i) Development and Non-Development Expenditure

Total expenditure can be divided into development and non-development expenditure. Development expenditure consists of all the productive expenditure by the government that can further lead to social welfare and accelerate economic growth and development. These expenditures are like a productive investment and used in the production of capital goods and services which provide instant benefits as well as it has some future prospective benefits. These expenditures include spending on various economic services and social services. Non-Development expenditures are like consumption expenditure and provide instant benefit and expand the well-being of the society, but it doesn't lead to further economic growth or development. These expenditures include expenditure on subsidies, defence expenditure, salaries, pensions etc. However, this classification of public expenditure is not used in fiscal management in India. As per the recommendation of Sukhomoy Chakravarti Committee in the year 1987-88, development and non-development expenditure were replaced by plan and non-plan expenditure.

(ii) Plan and Non-Plan Expenditure

The Plan expenditure consists of all the expenditures that are part of central planning. Plan expenditure includes all products and assets creating expenditure. Non-Plan expenditure consists of all the expenditures that are incurred on completed or previous schemes interest payment on borrowings. It often includes non-asset building and consumption expenditure. In September 2011, a panel headed by Dr C Rangarajan suggested redefining the plan and non-plan expenditure as capital and revenue expenditure.

(iii) Capital and Revenue Expenditure

Capital expenditures are expenditure on building fixed assets and are non-recurring in nature. This expenditure focuses on improving economic and social activities and productivity of the economy. These expenditures include loans to state and foreign governments and public enterprises to finance the project and capital defence expenditure. Revenue expenditures are recurring kind of expenditure incurred year by year on current consumption. These expenditures include salaries, pension, subsidies etc.

14.3 APPROACHES TO THEORIES OF PUBLIC EXPENDITURE

The theories of public expenditure explain the various aspects of public expenditure and the factors determining public expenditure. Followings are some important theories or approaches of public expenditure.

(i) Marginal Utility Approach

Marginal Utility Approach is a set of theories developed in the 1920s, which generally states that the marginal benefit of different types of public expenditure on various items should meet the marginal cost or disadvantages of the various methods are used to raise the fund for this public expenditure.

(ii) Public Good Approach

The public good approach argues that there are some goods and services that cannot be provided by the private mechanism or, these goods and services are consumed by the large population but not everyone has the ability of pay for these goods and services. Thus, the government has to be responsible to provide these public goods and lead to huge public expenditure.

(iii) Public Choice Approach

The Public Choice Approach refers to the political approach to public expenditure. According to this approach, the government fulfil the choice of its major voters and makes expenditure on such goods and services that secure its vote and chance to win the election again. It refutes the view that government makes a public expenditure for the welfare to its natives.

(iv) Positive Approaches

The positive approaches consist of theories that seek to explain the growth of public expenditure over time. Followings are two important theories of public expenditure under this approach.

a. Wagner's Law

Adolph Wagner in 1876 propounded "Law of increasing state activities" which explains that the public expenditure increases over time as the economy grows. The law explains that as the economy grows and decentralization takes place in administration and governance structure, which leads to the continuous increase in expenditure on law and order, urbanization and welfare to its population. Thus, the state activities increase over time and with the further growth of the economy.

b. Peacock Wiseman Hypothesis

The Peacock Wiseman Hypothesis is based on the idea of a discontinuous increase in public expenditure. The hypothesis basically talks about three types of effects in the growth of public expenditure. The first effect is called displacement effect i.e. due to some desirable or undesirable reason the level of public expenditure and taxation increase to a new level with displacing the old level. The second effect is the inspection effect refers to the situation where people demand to inspect the upheaval and improve it from the government. It results in a further increase in public expenditure and the new tolerable level of taxation remains and doesn't return to the old level. The third effect is called concentration-effect refers to the higher growth of central government activities than local or state government.

14.4 TRENDS IN PUBLIC EXPENDITURE IN INDIA

There has been a phenomenal growth of government spending and it has changed dramatically across industrial as well as developing countries since World War II. In recent times higher share of spending on welfare is common across many countries. Macroeconomic adjustment programmes have influenced the government expenditure and its composition in adverse manner in many developing countries in recent decades.

Socialism is in the preamble to the constitution of India. After independence the Indian government is continuously working to establish a welfare state. The study found an increasing trend in total expenditure of the both state and Indian government in absolute terms in India. The following figure shows the trends in public expenditure in India.

The public expenditure of state was 25.17 thousand crores in 1981-82 and increased to 28.74 thousand crores in 1982-83 with a growth rate of 14.19 per cent and after showing fluctuation it reached to 159.15 thousand crores with a growth rate of 18.90 per cent in 1994-95. It was 514.30 thousand crores in 2003-04 with the highest growth rate of 25.36 per cent. However, in 2005-06, it was 561.68 thousand crores with the lowest growth rate of 1.49 per cent. The total public expenditure in 2018-19 was 3559.73 thousand crores with a growth rate of 12.03 per cent. The total state public expenditure has increased with a CAGR of 13.92 per cent from 1981-82 to 2018-19.

The public expenditure of the central government of India was 25.27 thousand crores in 1981-82 which increased to 279.34 thousand crores in 1998-99 with a growth rate of 20.38 per cent. It can be observed that there has been a wide fluctuation in the growth rate of the total central public expenditure. It was 2457.24 thousand crores in 2018-19 with a growth rate of 14.72 per cent. However, it was increased with a CAGR of 12.80 per cent between 1981-82 and 2018-19. The ratio of total public expenditure to GDP in 1981-82 was 14.37 per cent which has increased in the 1980s then started to decline. Excepting some years it was around 13 to 14 per cent of GDP. In the year 2018-19, the public expenditure was 12.93 per cent of GDP.

14.5 TRENDS IN DEVELOPMENTAL AND NON-DEVELOPMENTAL EXPENDITURE

Trends in development and non-development expenditure of state and central government are similar to trends in total public expenditure. In 1990-91, the development expenditure was 63.37 thousand crores for state and 58.65 thousand crores for the central government, while the non-development expenditure was 22.60 thousand crores for state and 49.35 thousand crores for the central government.

The development expenditure has increased over time and in 2000-01, it reached to 205.67 thousand crores for state, and 139.39 crores for the central government. While the non-development expenditure for state and central government were 116.82 and 197.42 thousand crores respectively in 2000-01.

Finally, in 2018-19, the development expenditure for state and central government were 2290.51 and 1146.83 thousand crore respectively, While in 2018-19, the non-development expenditure was 986.37 and 1295.39 thousand crore respectively. The CAGR of development and non-development expenditure for state and central government were 13.17 per cent & 10.80 per cent and 13.91 per cent & 11.93 per cent respectively from 1990-91 to 2018-19. The growth rate of development and non-development expenditure for both state and central government has been very fluctuating over time

However, it can be seen that the portion of the development and non-development expenditure in GDP has decreased over time. Development expenditure was 10 per cent of GDP in the year 1990-91 which decreased to 6.03 per cent in the year 2018-19. The non-development expenditure which was 8.42 per cent of GDP in the year 1990-91 increased to

9.07 per cent after one decade in the year 2000-01 and then it started to decrease and reached to 6.81 per cent of GDP in the year 2018-19.

The ratio of development to non-development expenditure has also decreased from 1990-91 to 2018-19 for both the government. The ratio of development to non-development expenditure for the state was 2.80 which started to decrease in the 1990s to late 2000s and again started to increase and reached at 2.32 in the year 2018-19. In the case of the central government, the ratio was 1.19 in the year 1990-91 and then started to decline till the year 2007-08 and then increased till 2012-13 and again decreased and reached at 0.89 in the year 2018-19.

14.6 TRENDS IN REVENUE AND CAPITAL EXPENDITURE

Revenue and capital expenditure for both state and central government have increased over time. In 1981-82, the revenue expenditure was 17.08 and 15.41 thousand crore for state and central government respectively, while the capital expenditure was 8.10 and 9.86 thousand crore for state and central government respectively.

The revenue expenditure for state and central government has increased to 86.19 and 82.19 thousand crore in 1991-92, while the capital expenditure has increased to 21.74 and 29.12 thousand crore respectively. Finally, in 2018-19, the revenue expenditure reached to 2783.78 thousand crores and 2140.61 thousand crores and capital expenditure reached to 775.95 thousand crores and 316.62 thousand crores for state and central government respectively.

The growth rate of revenue expenditure for both state and central government has decreased over time; while there can be seen wide volatility in the growth rate of capital expenditure for both state and central government. The overall growth rate of capital expenditure of state has increased in 2018-19 in comparison to 1981-82, but however, its trends in growth rate for central government cannot be stated as it has high volatility. The revenue expenditure has always been more share in total expenditure compare to capital expenditure for both the state and central government. Revenue expenditure for the central government has increased very fast compare to state government.

It can also be noted that the revenue expenditure as a percentage of GDP for the central government has increased over time. It was 8.76 per cent of GDP in the year 1981-82 and after two decades in the year 2011-12 it was 13.12 per cent but in the year 2018-19, it decreased to 11.26 per cent of GDP. In the case of capital expenditure, its ratio to GDP has decreased over time. It was 5.61 per cent in the year 1981-82 and after one decade decreased to 4.32 per cent and finally in the year 2018-19, it decreased to 1.67 per cent of GDP.

14.7 EXPENDITURE TRENDS DURING POST COVID

The government's spending on Social Services increased significantly during the pandemic states the Economic Survey 2021-22. The Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman presented the Economic Survey 2021-22 in the Parliament here today. An increase of 9.8% has been made in the expenditure allocation to the Social Services sector in 2021-22 over 2020-21.

(i) Social Sector Expenditure

The Survey states that the Centre and the State governments enmarked an aggregate of Rs. 71.61 lakh crore for spending on social service sector in (BE) 2021-22. The revised expenditure of 2020-21 has also gone up by Rs. 54,000 crore from the budgeted amount. The Economic Survey further elaborates that in 2021-22(BE), funds to the sector increased to 8.6% of Gross Domestic Product (GDP), as compared to 8.3% of GDP in 2020-21 (RE). During the last five years, Social Services accounted for about 25% of the total Government expenditure. In 2021-22 (BE), it was 26.6%. The Economic Survey also notes that expenditure on health sector increased from Rs. 2.73 lakh crore in 2019-20 to Rs. 4.72 lakh crore in 2021-22 (BE), an increase of nearly 73%. For the education sector, increase during the same period was 20%, says the Survey.

(ii) Education

An assessment for the pre pandemic year 2019-20 for which data is available reveals that the number of recognized schools and colleges continues to increase between 2018-19 and 2019-20, except for primary and upper primary school, the Survey states. Priority to drinking water and sanitation in schools under the Jal Jeevan Mission, Swatchh Bharat Mission as well as under Samagra Sikhsha Scheme have been instrumental in providing required resources and creating assets in schools, notes the Economic Survey. As on 19.01.2022, under Jal Jeevan Mission 8,39,443 schools were provided tap water supply. Further, availability of teachers has improved at all levels continuously from 2012-13 to 2019-20.

14.8 CAUSES OF GROWTH OF PUBLIC EXPENDITURE IN INDIA

The increasing trends in public expenditure in India are due to various factors. Followings are the some important reasons that resulted in increase in public expenditure in India.

(a) Population

The increase in population is one of the major causes of the growth of public expenditure in India. Increasing population requires more and more social sectors expenditure, public goods and strong law and order. The population of India was 692 million in 1981-82 which increased to 1,040 million in 2001-02 and further it increased and reached to 1420 million in 2022.23.

(b) Increase in per-capita income

According to Musgrave increase in per-capita income leads to an increase in demand for public goods. Thus, it leads to an increase in public expenditure. The per-capita income in India was 2,115 rupees per annum which increased to 172,000 rupees per annum between 1981-82 to 2022-23

(c) Defense Expenditure

Defence expenditure in India has increased significantly. It possesses a major portion in both revenue and capital expenditure. Although, its share in revenue expenditure has decreased over time its share in capital expenditure gas increased very rapidly. It possesses almost one-third of total capital expenditure. According to the union budget document, 12 per cent of total public expenditure in India goes to defence expenditure in 2022-23.

(d) Subsidy

The subsidy is necessary to support essential economic activities like agriculture. The share of subsidies in total expenditure has increased over time by showing the decreasing sign. It was 8.90 per cent of total public expenditure in 1981-82 which increased to 18.22 per cent in 2012-13 and in 2022-23 it was 12.22 per cent of total public expenditure in India.

(e) Interest payments

Interest payments have been increased over time contributes significantly to raising public expenditure in India. In 1981-82, the share of interest payments in total expenditure was

11.44 per cent which increased very rapidly during the 1990s and 2000s and reached to 23.70 per cent in 2022-23 after some upward and downward fluctuations.

(f) Administrative services Expenditure

Administrative services are necessary to maintain peace, law and order. The administrative expenditure has also increased very rapidly. In 1981-82 the administrative expenditures were 1,825 crores which increased to 2,20,000 crore in the year 2022-23.

(g) Social services Expenditure

The social services expenditure also has increased over time in India. The government provides various types of social services to support developmental activities. With an increase in developmental works and population the social services expenditure has increase overtime.

(h) Urbanization and Infrastructure Development

India is still to urbanized so a major portion of expenditure goes to urbanization and development of basic infrastructure facilities. Government undertakes the development and construction of various social overheads to support economic activities.

(i) Inflation

This is also one of the reasons that increased public expenditure. Inflation is a rise in the general price level in the country. Inflation increases the cost of both new and existing projects.

(j) Indian Economic and Political System

The Indian economy is a mixed economy where there is the participation of both the public and private sectors. It increases the responsibility of the government. India is also a democratic country where social welfare is promoted. Therefore, it increases the expenditure by the government.

14.9 INTRODUCTION TO PUBLIC DEBT :

Debt can be simply understood as the amount owed by the borrower to the lender. The total financial obligations of the public sector make up a nation's gross government debt, also known as public debt or sovereign debt**.** Government borrowing over time is mostly due to prior shortfalls in the budget. When a government's expenses exceed its receipts, a deficit results. Both domestic and foreign people may be subject to government debt. The sum is counted against the nation's external debt if it is owed to citizens of another country. Public debt is the total amount borrowed by the government of a country when the government's revenue from taxes and other sources falls short of its spending requirements.

In India, public debt includes the total liabilities of the Union government that have to be paid from the Consolidated Fund of India (Article 292). In the Indian context, public debt includes the total liabilities of the Union government that have to be paid from the Consolidated Fund of India.

- Sometimes, the term is also used to refer to the overall liabilities of the Central and State Governments.
- However, the Union Government clearly distinguishes its debt liabilities from those of the states.
    - It calls overall liabilities of both the Union Government and states as General Government Debt (GGD) or Consolidated General Government Debt.
- Union Government relies heavily on market borrowing to meet its operational and developmental expenditure. The study of public debt involves the study of various factors such as debt-to-GDP ratio, and sustainability and sources of Government debt.
- The fact that almost a fourth of the government expenditure goes into interest payment explains the magnitude of the liabilities of the Union government.

14.9.1 Classification of Public Debt

Public debt can be classified on the nature into various types. Some of the are listed below:

(i) Internal Debt and External debt

The Internal debt is the public debt borrowed from within the country. The major sources of funds for internal debt include commercial banks and other financial institutions. Here the government obtains finance by borrowing and not by creating de novo. It is rarely spent on goods and services. External Debt is when debt is taken from individuals and organizations living outside the country. Here borrowing is from commercial banks, governments or international financial organizations.

Over the years, the Union government has followed a considered strategy to reduce its dependence on foreign loans in its overall loan mix. External loans are not market loans. They have been raised from institutional creditors at concessional rates. Most of these external loans are fixed-rate loans, free from interest rate or currency volatility. Internal debt constitutes more than 93% of the overall public debt. Internal loans that make up for the bulk of public debt are further divided into two broad categories – marketable and non-marketable debt. Dated government securities (G-Secs) and treasury bills (T-bills) are issued through auctions and fall in the category of marketable debt. Intermediate treasury bills (with a maturity period of 14 days) issued to state governments and public sector banks, special securities issued to National Small Savings Fund (NSSF) are classified as non-marketable debt.

(ii) Productive Debt and Unproductive debt

Productive debt sources are those debts that are used to generate income from sources such as railway, plans for electricity, plans of irrigation, etc. The income generated from such plans can be used for the payment of yearly interest and for the payment of principal. Such debts put pressure on the taxpayer and the government. On the other hand, the Unproductive debt sources are incurred on assets that do not generate income. In such debts at some point, there are losses of interest also.

(iii) Redeemable/Terminable Debt and Irredeemable debt/Perpetual Debt

Redeemable are those debts in which the government promises that they would pay back the debt on a fixed date later. These debts are also called terminable debts. Irredeemable are those debts that are done without any promise to be paid back later. When debts are not paid back on time then the governments decide on specific arrangements to pay back the debt such as whether such debts need to be paid back from the taxable income, etc.

(iv) Funded Debt and Unfunded debts

Funded debts are long term in nature. Payment of these debts is to be done within one year or it can be possible, not to give any promise. Where as, Unfunded debts debts are given for three or six months and their time period is not more than one year such as treasury bonds, etc.

(v) Short Term Debt and Long Term Debt

Short term is when the government takes debt for a short period. These debts are paid back within a year that is to be taken to complete the tenure of debts. Long term is when the government takes debt for a long period of time. The period of giving it back is not fixed. In this type of debt, the giver got regular interest.

14.9.2 Advantages of Public Debt

I. It **increases the money supply** that facilitates various industries in the country to increase production which in turn increases the national standard of life.

II. It helps to counter various man-made (inflation, etc) and natural calamities (floods, landslides, etc).
III. It is especially helpful for developing countries to **allocate resources in various sectors** of the economy.
IV. Equitable and suitable distribution of debts take place which **promotes harmony and cooperation in public**.
V. Public debts are also regarded as **secure sources of investment**.
VI. It also helps in various **non-economic benefits** to nations such as better international relations between friendly nations.

14.9.3 Disadvantages of Public Debt

I. There is increased **misuse of the resources** of the country as a large part of it is given as interests to foreign nations.
II. There is a **fear of going bankrupt** in the near future especially in case of a global economic crisis.
III. **Extravagant spending** can happen when resources are available easily. For instance, **Greece had a debt to GDP ratio of 160% in 2009 due to extravagant spending.**
IV. There can be **international pressure and political interference** in the domestic policies of the debtor nation.
V. Increased **burden of repayment on citizens** in the form of increased taxation.
VI. Slower economic and weak economic development

14.9.4 History of Public Debt in India:

Towards the eighteenth century, the borrowing needs of Indian Princely States were largely met by Indigenous bankers and financiers. The concept of borrowing from the public in India was pioneered by the East India Company to finance its campaigns in South India (the Anglo French wars) in the eighteenth century. The debt owed by the Government to the public, over time, came to be known as public debt. The endeavours of the Company to establish government banks towards the end of the 18th Century owed in no small measure to the need to raise term and short term financial accommodation from banks on more satisfactory terms than they were able to garner on their own. The incentive to set up Government banks (read central banks), had a lot to do with debt management.

Public Debt, today, is raised to meet the Governments revenue deficits (the difference between the income of the government and money spent to run the government) or to finance public works (capital formation). Borrowing for financing railway construction and public works such irrigation canals was first undertaken in 1867. The First World War saw a rise in India's Public Debt as a result of India's contribution to the British exchequer towards the cost of the war. The provinces of British India were allowed to float loans for the first time in December, 1920 when local government borrowing rules were issued under section 30(a) of the Government of India Act, 1919. Only three provinces viz., Bombay, United Provinces and Punjab utilised this sanction before the introduction of provincial autonomy. Public Debt was managed by the Presidency Banks, the Comptroller and Auditor-General of India till 1913 and thereafter by the Controller of the Currency till 1935 when the Reserve Bank commenced operations.

Interest rates varied over time and after the uprising of 1857 gradually came down to about 5% and later to 4% in 1871. In 1894, the famous 3 1/2 % paper was created which continued to be in existence for almost 50 years. When the Reserve Bank of India took over the management of public debt from the Controller of the Currency in 1935, the total funded debt of the Central Government amounted to Rs 950 crores of which 54% amounted to sterling debt and 46% rupee debt and the debt of the Provinces amounted to Rs 18 crores.

Broadly, the phases of public debt in India could be divided into the following phases.

Upto 1867: when public debt was driven largely by needs of financing campaigns.

1867- 1916: when public debt was raised for financing railways and canals and other such purposes.

1917-1940: when public debt increased substantially essentially out of the considerations of expansion

1940-1946: when because of war time inflation, the effort was to mop up as much a spossible of the current war time incomes

1947-1951: represented the interregnum following war and partition and the economy was unsettled. Government of India failed to achieve the estimates for borrwings for which credit had been taken in the annual budgets.

1951-1985: when borrowing was influenced by the five year plans.

1985-1991: when an attempt was made to align the interest rates on government securities with market interest rates in the wake of the recommendations of the Chakraborti Committee Report.

1991 to 2014: When comprehensive reforms of the Government Securities market were undertaken and an active debt management policy put in place. Ad Hoc Treasury bills were abolished; commenced the selling of securities through the auction process; new instruments were introduced such as zero coupon bonds, floating rate bonds and capital indexed bonds; the Securities Trading Corporation of India was established; a system of Primary Dealers in government securities was put in place; the spectrum of maturities was broadened; the system of Delivery versus payment was instituted; standard valuation norms were prescribed; and endeavours made to ensure transparency in operations through market process, the dissemination of information and efforts were made to give an impetus to the secondary market so as to broaden and deepen the market to make it more efficient.

As at the end of March, 2003, it is estimated that the combined outstanding liabilities of the centre and state governments amounted to Rs 18 trillion which worked out to over 75 percent of the country's gross domestic product (GDP). In India and the world over, Government Bonds have, from time to time, have not only adopted innovative methods for rasing resources (legalised wagering contracts like the Prize Bonds issued in the 1940s and later 1950s in India) but have also been used for various innovative schemes such as finance for development; social engineering like the abolition of the Zamindari system; saving the environment; or even weaning people away from gold (the gold bonds issued in 1993).

Over the years, the Union government has followed a considered strategy to reduce its dependence on foreign loans in its overall loan mix. Internal debt constitutes over 93 per cent of the overall public debt. Internal loans that make up for the bulk of public debt are further divided into two broad categories – marketable and non-marketable debt. The Union government's liabilities account for a little over 46 per cent of India's gross domestic product (GDP). However, if the public debt is calculated as general government liabilities, which also includes the liabilities of states, this goes up to 68 per cent of the country's GDP.

From 2014 to 2022 the government's debt has increased from Rs. 55-lakh crore to **Rs. 155-lakh crore**. India's government debt as a proportion of GDP has remained relatively stable at around **82%** in 2023 up from 81% in 2005. (the FRBM Act 2003 mandates Debt Ceilings of 60% for general government and 40% for the Central government). It is expected to follow a declining trend if India's GDP continues to expand at a rapid pace. (nominal rate of 11% and above).

14.10 METHODS OF REDEMPTION OF PUBLIC DEBT:

Redemption of debt refers to the repayment of a public loan. Although public debt should be paid, debt redemption is desirable too. In order to save the government from bankruptcy and to raise the confidence of lenders, the government has to redeem its debts from time to time. Sometimes, the government may resort to an extreme step, such as repudiation of debt. This extreme step is, of course, violation of the contract. Use of repudiation of debt by the government is economically unsound. Here, instead of concentrating on the repudiation of debt, we discuss below other important methods for the retirement or redemption of public debt:

i. Refunding:

Refunding of debt implies issue of new bonds and securities for raising new loans in order to pay off the matured loans (i.e., old debts). When the government uses this method of refunding, there is no liquidation of the money burden of public debt. Instead, the debt servicing (i.e., repayment of the interest along with the principal) burden gets accumulated on account of postponement of the debt- repayment to save future debt.

ii. Conversion:

By debt conversion we mean reduction of interest burden by converting old but high interest- bearing loans into new but low interest-bearing loans. This method tends to reduce the burden of interest on the taxpayers. As the government is enabled to reduce the burden of debt which falls, it is not required to raise huge revenue through taxes to service the debt. Instead, the government can cut down the tax liability and provide relief to the taxpayers in the event of a reduction in the rate of interest payable on public debt. It is assumed that since most taxpayers are poor people while lenders are rich people, such conversion of public debt results in a less unequal distribution of income.

iii. Sinking Fund:

One of the best methods of redemption of public debt is sinking fund. It is the fund into which certain portion of revenue is put every year in such a way that it would be sufficient to pay off the debt from the fund at the time of maturity. In general, there are, in fact, two ways of crediting a portion of revenue to this fund. The usual procedure is to deposit a certain (fixed) percentage of its annual income to the fund. Another procedure is to raise a new loan and credit the proceeds to the sinking fund. However, there are some reservations against the second method.

Dalton has opined that it is in the Tightness of things to accumulate sinking fund out of the current revenue of the government, not out of new loans. Although convenient, it is one of the slowest methods of redemption of debt. That is why capital levy as a form of debt repudiation is often recommended by economists.

iv. Capital Levy:

In times of war or emergencies, most governments follow the practice of raising money necessary for the redemption of the public debt by imposing a special tax on capital. A capital levy is just like a wealth tax in as much as it is imposed on capital assets. This method has certain decisive advantages. Firstly, it enables a government to repay its (emergency) debt by collecting additional tax revenues from the rich people (i.e., people who have huge properties). This then reduces consumption spending of these people and the severity of inflation is weakened. Secondly, progressive levy on capital helps to reduce inequalities in income and wealth. But it has certain clear-cut disadvantages too. Firstly, it hampers capital formation. Secondly, during normal time this method is not suggested.

v. Terminal Annuity:

It is something similar to sinking fund. Under this method, the government pays off its debt on the basis of terminal annuity. By using this method, the government pays off the debt in equal annual installments. This method enables government to reduce the burden of debt annually and at the time of maturity it is fully paid off. It is the method of redeeming debts in instalments since the government is not required to make one huge lump sum payment.

vi. Budget Surplus:

By making a surplus budget, the government can pay off its debt to the people. As a general rule, the government makes use of the budgetary surplus to buy back from the market its own bonds and securities. This method is of little use since modern governments resort to deficit budget. A surplus budget is usually not made.

vii. Additional Taxation:

Sometimes, the government imposes additional taxes on people to pay interest on public debt. By levying new taxes—both direct and indirect— the government can collect the necessary revenue so as to be able to pay off its old debt. Although an easier means of repudiation, this method has certain advantages since taxes have large distortionary effects.

viii. Compulsory Reduction in the Rate of Interest:

The government may pass an ordinance to reduce the rate of interest payable on its debt. This happens when the government suffers from financial crisis and when there is a huge deficit in its budget.

14.11 SUMMARY

Before India got Independence, the amount and pattern of public expenditure in this country were determined by the colonial policy of the British rulers. Changes in the expenditure policy of the government became inevitable after India got Independence and the process of planning began. The nationalist government laid down its own priorities and the volume and pattern of expenditure were determined accordingly. The expansion in the government's activities during the post-independence period has been both intensive and extensive as guided by the objective of economic planning. However, now the government is attempting to restrict its activities under structural reforms. With reference to Public debt, inn Indian context refers to the borrowings of the Central and State governments. It has grown tremendously over the last few decades. The Government of India is committed to transforming India's backward economy into a developing modern economy. This requires massive investments in the infrastructure and heavy capital goods industries.

14.12 Key Words

Public Expenditure: Public expenditure is expenditure by the government on various government activities and social sector services.

Capital Expenditure: Capital expenditures are expenditure on building fixed assets and are non-recurring in nature.

Public Debt : The total financial obligations of the public sector make up a nation's gross government debt, also known as public debt or sovereign debt.

Inflation : Inflation is a rise in the general price level in the country. Inflation increases the cost of both new and existing projects.

Capital Levy: A capital levy is just like a wealth tax in as much as it is imposed on capital assets. In times of war or emergencies, most governments follow the practice of raising money necessary for the redemption of the public debt by imposing a special tax on capital.

14.13 Self Assessment Questions:

Essay Type

1. Briefly Explain the various theories of Public Expenditure?
2. Describe the trends in Public Expenditure in India
3. Analyze the causes for growth of Public Expenditure in India
4. Critically present the trends in Public Debt in India
5. Evaluate the various methods of Public debt redumption.

Short Answer

1. Classification of Public expenditure
2. Public expenditure during post-Covid
3. Classification of Public debt
4. Advantages of Public debt
5. Disadvantages of Public debt.

14.14 Suggested Readings:

1. Ursula K. Hicks, "Public Finance", James Nisbet & Co.Ltd., Cambridge, 1947
2. Musgrave & Musgrave, "Public Finance in Theory and Practice", McGraw-Hill International Editions, New York, 1989
3. Mishra & Puri, "Indian Economy", Himalaya Publishing House, New Delhi, 2021
4. R.C. Agarwal, "Economics of Development and Planning", Lakshmi Narin Agarwal, Agra, 2004.

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LESSON - 15
BUDGET TRENDS AND FISCAL POLICY

Aims and Objectives

After completing this lesson, the student is able to understand the following:

- ✓ The Concept of Budges and Process of Indian Budget
- ✓ What is Fiscal Policy and the types, instruments, components and other issues relating to Fiscal Policy.
- ✓ FRBM Act.

Structure

15.1 Introduction to the concept of Budget

15.1.1 Indian Budget process

15.1.2 Budget documents

15.1.3 An analysis on Budget trends

15.2 Introduction to Fiscal Policy

15.2.1 Objectives of Fiscal Policy

15.2.2 Type of Fiscal Policy

15.2.3 The Components of Fiscal Policy

15.2.4 Instruments of Fiscal Policy

15.2.5 Need for Fiscal Policy

15.2.6 How Does Fiscal Policy Affect People

15.2.7 Handles of Fiscal Policy

15.3 FRBM Act

15.4 Summary

15.5 Key word

15.6 Self Assessment Questions

15.7 Suggested Readings

15.1 INTRODUCTION

The Union Budget of India, referred to as the annual Financial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India, presented by the Finance Minister of India in Parliament. The budget has to be passed by the House before it can come into effect on April 1, the start of India's financial year. It states that the Chancellor should first estimate revenue from each place and sphere of activity under different heads of accounts and then arrive at a grand total. The actual revenue is to be estimated by adding receipts into the treasury for current year and delayed payments received which were due in earlier year/s. From this deduct the expenditure on king, standard rations, other exemptions granted by King and authorized postponement of payments into treasury. The outstanding revenues were estimated from work under construction for which revenue will accrue on completion, unpaid fines, unrecoverable dues, uncollectible sums, advances to be repaid by officers etc.

The origins of the modern Budget can be traced to the Norman period, where two departments dealt with finances of the Treasury and the Exchequer. The Treasury received and paid out money on behalf of the monarch. The first use of the term 'budget' may date back to 1733 financial statement by Walpole as Prime Minister and Chancellor of the Exchequer. A cartoon of him opening a patent medicine seller's wares was published at the time, as a satirical comment with the caption 'The Budget Opened'. ('Budge' is an old word for a bag or small case).

15.1.1 Indian Budget process

The budget is prepared by the Finance Minister with the assistance of number of advisors and bureaucrats. The Finance Minister seeks the view of the industry captains and economists prior to preparation. Various accounting and finance related organisations send in their opinions and suggestions .The budgeting exercise in India remains mainly the domain of bureaucrats to participate and influence the outcomes. Normally, the budget-making process starts in the third quarter of the financial year. The budget has four stages viz., (1) estimates of expenditures and revenues, (2) first estimate of deficit, (3) narrowing of deficit and (4) presentation and approval of budget.

STAGE 1: Estimates of expenditures and revenues

- ***Part A: Estimates of expenditure***

  The process begins with various ministries providing initial estimates of plan and non-plan expenditures. The ministries discuss the plan expenditures with the Planning Commission. The Planning Commission allocates resources for continuing plan programmes and decides on the new programmes that can be undertaken on the basis of a tentative estimate or resources available, that is provided to it by the finance ministry. The financial advisors of the ministries prepare the non-plan expenditures. The expenditure secretary consolidates them and after intensive discussion with financial advisors, budget estimates are set for the ensuing fiscal year. The majority of the non-plan expenditure is accounted for by interest payments, subsidies and wage payments to employees.

- ***Part B: Estimates of revenue***

  Apart from estimating the expenditure, an assessment of expected revenues likely to flow into the government treasury has to done as a concurrent exercise. Revenue receipts are of two types - capital and current receipts. Capital receipts include repayment of loans given by the government, receipts from divestment of public-sector equity and borrowings from both domestic and external. Current receipts include mainly, tax revenues, receipts by way of dividends from public-sector units and interest payments on loans given out by the central government.

  The amounts to be received by way of tax revenues is estimated on the basis of existing rates of taxation and taking into consideration the likely growth and inflation rate over the ensuing fiscal year. On the capital receipts side, targeted amounts to be realised through divestment of public sector equity and amounts to be realised by way of repayments of loans is made. All the estimates are provided to the revenue secretary.

STAGE 2: First estimates of deficit

After the estimates of revenue and expenditure are made, they are matched together. This provides the first estimate of expected shortfall in revenue to meet projected expenditure. The government then, in consultation with the Chief Economic Advisor, decides on the optimum level of borrowings to meet this deficit. The figure of external borrowings is known as much of the external borrowing by the government consists of bilateral and multilateral assistance which is known by the time budget exercises are undertaken. The level of domestic borrowing depends partly on the desired level of fiscal deficit that the government targets for itself. A part of the revenue gap is left unfilled to be met through the issue of ad hoc treasury bills.

STAGE 3: Narrowing of the deficit

After the targets for the fiscal deficits and the overall budget deficit is decided, any remaining shortfall is filled through a revision in tax rates if feasible , keeping in mind the fiscal incentive structure the government wishes to put in place to stimulate the growth in different sectors. Following the initial plans, if any changes need to be made adjustments are made to the expenditure; usually the plan expenditure has to be modified. The non plan expenditure comprises of interest payments, subsidies and administrative expenditure. Due to the political sensitivities involved in reducing subsidies, non-plan expenditure of the government is inflexible about changing it and it is the plan expenditures which get the axe after pre-emption have already been made for non-plan expenditure.

STAGE 4: The Budget

The Indian constitution has made the Parliament supreme in financial matters. The Union government, under Article 112 of the constitution, is required to lay an annual financial statement of estimated receipts and expenditure before both Houses of Parliament. It can levy taxes or disburse funds only on approval in both houses of Parliament. However, the proposal for taxation or expenditure has to be initiated within the Council of Ministers--specifically by the Minister of Finance. The Finance Minister presents before the Parliament, a financial statement detailing the estimated receipts and expenditures of the central government for the forthcoming fiscal year and a review of the current fiscal year.

Under Article 114 of the Constitution, the government can withdraw money from the Consolidated Fund of India only on approval from Parliament and so it has to get the Appropriation Bills approved by Parliament. This authorises the executive to spend money. Article 265 of the Constitution prohibits the government from collecting any taxes without the authority of law. Therefore, the government comes up with the Finance Bill. The Bill may levy new taxes, modify the existing tax structure or continue the existing tax structure beyond the period approved by Parliament earlier. The bills are forwarded to the Rajya Sabha for comment. The Lok Sabha, however, is not obligated to accept the comments and the Rajya Sabha cannot delay passage of these bills. The bills become law when signed by the President. The Lok Sabha cannot increase the request for funds submitted by the executive, nor can it authorize new expenditures.

The proposals in the budget come into force on April 1. Between the presentation and effective date there is a gap of 1 month during which the Lok Sabha can review and modify the government's budget proposals. This does not happen most of the time and the Parliamentary scrutiny of proposals and the passage of the budget gets completed in May, well after the commencement of the new fiscal year. Since the proposed budget has to be effective from April 1, the government usually seeks an interim approval to meet emergent expenditures that have to be incurred pending the approval of the budget. This is called the vote-on-account and the sanctions given by the passage of the vote-on-account get automatically overridden once the Budget is approved by Parliament.

Other budgets

The Indian Railways, the largest public-sector enterprise, and the Department of Posts and Telegraph have their own budgets, funds, and accounts. The appropriations and disbursements under their budgets are subject to the same form of parliamentary and audit control as other government revenues and expenditures. Dividends accrue to the central government, and deficits are subsidized by it like other government enterprises.

State Budget

Each state government has its own budget, prepared by the state's minister of finance in consultation with appropriate officials of the central government. Primary control over state finances rests with the state legislature. However, State finances are which latter reviews the state government accounts annually and reports the findings to the state governor for submission to the state's legislature.

Because of its greater revenue sources, the central government shares its revenue received from personal income taxes and certain excise taxes with the states. It also collects other minor taxes, the total proceeds of which are transferred to the states. The division of the shared taxes is determined by financial commissions established by the president, usually at five-year intervals. The central government also provides the states with grants to meet their commitments.

15.1.2 Budget documents

The Union Budget comprises various documents. The first one is the speech of the Finance Ministry, which he reads in the Lok Sabha. The Budget speech provides the direction in which the government wishes to move in the coming financial year, the growth targets and the major thrust areas. The Finance Minister spells the broad tax policy measures in his speech. The speech lists the problems being faced by the country on the economic front and indicates the governments response to them. The speech also includes various expenditures and tax proposals.

From the very first Budget of independent India that focussed on food security to the 2016-17 Budget presented by the current NDA government that promised to double farmers' income, the challenges and issues have remained much the same, so are the proposed solutions. Here, we take a look at the last 69 years of budget-making through the lens of environment and development.

15.1.3 An analysis on Budget trends :

Budget analysis entails analysis and assessment of budget from the lens of marginalised sections of population with the objective of prioritisation of public expenditures and collection of revenues in ways that are socially equitable. It can be used for monitoring different stages of the budget process to determine the extent to which policies translate into outcomes. If the substance of the budget becomes increasingly comprehensible to more people, the increased interest and open debates facilitate a better flow of information that can assist the communities to articulate demands and pressure to establish accountability within the public expenditure system.

1948-49 Budget:

The first budget of India covered just 7-1/2 months, from August 15, 1947, to March 31, 1948. The main highlight of the first budget was the decision to pass the budget. Partition and the consequent destabilisation were the core factors that determined the budget provisions. The three major expenses in the budget were on food grain production, defence services and civil expenditure. Food production was low, and therefore, self-sufficiency in food grains was accorded highest priority. The targeted budget revenue was Rs 171 crore (approx). Of this, Rs 15.9 crore was expected from the posts and telegraph department. The expected revenue expenditure was Rs 197 cr (approx), of which defence was allocated Rs 92.74 crore. The increase in expenditure was on account of expenses allocated for stabilisation, refugee relief and rehabilitation.

1949-50 Budget:

The after-effects of partition continued to be major deciding factor of this budget as well. The floods in Bihar, the cyclone in Bombay and the famine that hit the western coast were also major concerns. The key highlight of the second budget was controlling inflationary trends as the purchasing power increased in certain sections of society. The focus areas of the budget were: reintroducing food control, increasing supply of food grains at fair price and limiting food imports from overseas. Proposals to take dollar loans from IBRD/IMF were incorporated to sanction development projects. The revenue receipts were estimated at Rs 338.32 crore against the budget estimate of Rs 255.24 crore, an increase of Rs 83.08 crores. Defence Services accounted for Rs 34.35 crore and civil expenditure estimates were at a balance of Rs 48.14 crore. The defence sector saw an increase due to operations in the Kashmir valley.

1950-55 Budgets:

This was the first budget after India adopted the Constitution, declaring the country a republic. The main purpose of the budget was to lay down the foundation of the Planning Commission, which in turn was to formulate effective plans for utilising the nation's resources. Indian budget highlights in the early 1950s revolved around the public sector and finances, and, hence, dwelt much on taxation, inflation and public savings.. The budget also reduced the maximum rate of income tax from 30 per cent to 25 per cent. Incomes above Rs 121,000 attracted a super-tax rate of 8.5 annas per rupee. The maximum rate of personal taxation was about 78 per cent. During 1951-52, the revenue was now estimated at Rs 387.21 crore and expenditure at Rs 379.28 crore. This was due to the improvement in receipts from customs, railways, import duty reduction and profits made by the posts and telegraph department. Of the total expenditure increase of Rs 41.4 crore, defence services was allocated Rs 11.45 crore and civil estimates were at Rs 29.95 crore. Later, Food grain production increased with growth in the agricultural sector. This was followed by a steady downward movement in prices. A marked improvement in the revenue position was mainly due to the extraordinary buoyancy of receipts from customs, excise duties and income tax. However, balance of payments (BOP) was not favourable as exports fell. What's more, substantial quantities of food grains, essential raw materials and capital/consumer goods continued to be imported from abroad.

1955-60Budgts:

The major highlight of these financial years was industrial development taking centre stage with annual growth rate of 8 per cent. The economic condition in the country changed for the better in 1953-54 and the economy achieved greater strength in the course of 1955. The focus was also to increase the standard of living and reduce poverty by pulling more families above BPL status. The key highlight of 1957-58 budget was imposition of severe restrictions on imports through an import licensing system. Wealth tax, expenditure tax and a tax on railway passenger fee were introduced. Peak excise was raised to 400 per cent. The budget marked the first attempt to distinguish between active income (salaries or business) and passive income (interest or rent). Income tax rates were hiked. Between 1958-60, Industrial production continued to grow, but at a slower pace as compared to 1957. However, agricultural production saw a rapid increase in 1958-59. Industrial production saw an increase of 7.4 per cent in 1959. Another notable feature of the year was the increase in the production of iron, steel and aluminium, which together accounted for over a third of the rise in the index of industrial production.

1960-70 Budgets:

The paramount consideration in framing the budgets for this period was the need to build up the defence potential of the nation. Following principles of past budgets, the budget for this term stressed on expenses on development, production, employment and investment. Another important aspect was to improve the savings rate of the common man even more. The budget provided for export promotion and development. The industrial and investment sectors grew. However, the agriculture output did not match up with investments because of unfavourable climatic conditions that year. This decreased the availability of food grains and raw materials and altered the pattern of demand and supply equation in the country. Another important factor was that foreign aid was provided for railways and industry. The primary objective was to raise the capacity for individual savings and to improve the performance of industry to receive high returns on the capital invested. The budget also for the first time had provisions of aid to foreign countries, such as Nepal, Bhutan and African countries. Defence expenditure continually rose despite efforts to restrict its growing share. The 1968-69 Budget was considered to be a people-sensitive budget as it ended the requirement of stamping and assessment of goods by the Excise Department authorities. The government also introduced the system of self-assessment by all manufacturers.

1970-80 Budgets :

The major highlights for this phase were to provide adequate employment opportunities. Greater attention was paid to dry farming areas and small enterprises and entrepreneurs were encouraged. The budget for 1970-71 made provisions essentially through schemes that focussed on social welfare with future growth potential. It was also believed that the interest of mine workers would be best served in a government-run set-up. The estimate for the budget deficit for 1973-74 was Rs 550 crore. Fertiliser production programmes were pushed. The programmes were designed for optimum utilisation of surface and groundwater. Farmers' service societies were launched to provide credit to farmers in time for processing and marketing their produce. The nationalisation of coal began to yield results. The provision in the budget for food subsidy at Rs100 crore increased to Rs 295 crore. Defence expenditure for the phase was Rs 2,752 crore, while non-plan revenue expenditure was estimated at Rs 5,908 crore. The investment sector was given maximum attention in the budget for 1976-77. A provision of Rs 393 crore was made in 1978-79 for health and family welfare as against only Rs 284 crore in 1977-78.

1980-90 Budgets:

The improvement of socio-economic condition of the scheduled castes was a major element of the development strategy during this phase. A provision of Rs 3,094 crore was made for Central assistance to states' plans, Union territories' plans and sub-plans of hills and tribal areas, special component plans for the scheduled castes, schemes of the North Eastern Council, Rural Electrification Corporation and natural calamities. A provision of about Rs 50 crore was made for the landless and weaker sections as part of the 20-point economic programme. A provision of Rs 70 crore was made for the development of tribal people and areas under the tribal sub-plan. Outlay on agriculture and rural development was increased substantially. Industrial growth increased to 4.5 per cent. MODVAT credit was introduced. This allowed credit set-off of duty paid on raw materials against the duty on final products to reduce the cascading effect of taxes on the final price of goods. The government also proposed the setting up of Unit Trust of India's mutual fund and Mahanagar Telephone Nigam Limited. The government also announced its intention to dismantle the license raj. The enforcement directorate of the finance ministry was established with the mandate to sniff out tax evaders. Provisions related to minimum corporate tax, better known today as MAT or Minimum Alternative Tax was also introduced to bring into the tax net highly profitable companies that were legally managing to avoid paying income tax.

Post-liberalisation

1991-2000 Budgets:

The year 1991-92 marked the beginning of economic liberalisation. Import-export policy was revised and import duties were slashed to expose Indian industry to competition from abroad. The government began rationalisation of duty structures by reducing the peak customs duty from 220 per cent to 150 per cent. This was done because the balance of payments was precarious. The government introduced service tax in the 1994 budget and also placed bets on growth through rapid technological development. The 1997 budget made tax rates moderate for individuals as well as companies. It allowed companies to adjust MAT paid in earlier years against tax liability of subsequent years. The government also launched the Voluntary Disclosure of Income Scheme (VDIS), to bring out black money. It phased out ad-hoc treasury bills used for financing budget deficit. Budget 1997 aimed to widen the tax base. India had a peak income tax rate in the late 1960s and early 1970s of 97.5 per cent. The moderation in rates improved overall compliance as those who used to find rates prohibitive earlier began to pay up instead of hiding their incomes. Personal income tax collections increased from 1997-98—from Rs 18,700 crore to Rs 100,100 crore during April 2010-January 2011. VDIS garnered about Rs 10,000 crore. Higher disposable incomes in the hands of taxpayers helped generate demand. The incremental tax revenues were leveraged to increase public expenditure on social welfare and infrastructure.

2000-2010 Budgets:

Incentives for software exporters was phased out during this period. In Budget 1991, income from software exports was made tax-free for three years, and then the tax holiday was extended to perpetuity in budget 1995.This was to improve the ratio of taxes to GDP and to promote India as a major software development centre in the world. The introduction of this tax holiday to software export sector was followed by exceptional growth in Indian IT industry. Transfer pricing regulations was also introduced in 2001-02, which required transactions between associated enterprises to be transparent and whole. The regulation played a big role in the prevention of erosion of the tax base in India. Gross Domestic Product (GDP) was estimated to have grown at 8.6 per cent in 2010-11 in real terms. Economy showed remarkable resilience. Continued high food prices were a principal concern. Consumers were denied the benefit of seasonal fall in prices despite improved availability of food items, revealing shortcomings in distribution and marketing systems. The budget for the financial year 2010-11 aimed to revive the agriculture sector but mentioned no incentives for organic fertilizers and sustainable farming. Monetary policy measures were expected to further moderate inflation in the coming months. Exports grew by 29.4 per cent, while imports recorded a growth of 17.6 per cent during April to January 2010-11 over the corresponding period the previous year.

2010-2022 Budgets :

The budget projected a pro-poor image while covertly playing to the market by not increasing borrowing to spend on development programmes. The government tried to replace declarations of sops with access to easy credits. First, it markedly increased and facilitated poor people's access to credit. The target for agricultural credit was raised from Rs 100,000 crore to Rs 575,000 crore in 2012-13. Second, through various fiscal initiatives like amending the Fiscal Responsibility and Budget Management Act of 2003 (FRBM Act), the budget gave the private sector the message that reforms were on track, at least those concerning government's direct market impacting activities like borrowing. However, the budget failed to restrain use of subsidised diesel in private diesel cars. The finance minister's main mantra for the last full-fledged budget of UPA II was inclusiveness and sustainable development, but there was little budget allocation to steer the country towards ecologically sustainable development**.** The budget 2013 increased allocation for agriculture and watershed development. Anticipating passing of National Food Security Bill, Rs 10,000 crore was set aside to meet incremental cost on food subsidies. There was a 46 per cent increase in budget for rural development.

BJP government's maiden budget was disappointing for farmers **with Arun Jaitley** in 2014, announcing nothing much in their kitty to address increasing farm stress and resolve agrarian crisis in the country. While several announcements were made for the health sector, all were focussed on medical education and building institutions. Preventive or primary healthcare found no mention. In the energy sector, Jaitley emphasised big solar power projects, neglecting decentralised mini and micro grid solar projects for rural areas. The government also proposed to set up an Integrated Ganga Conservation Mission— Namami Gange—and allocated Rs 2,037 crore towards the mission. Even the first full-year budget of 2015 the NDA government left some critical questions about the future of social sector schemes unanswered. According to experts, the Union Budget 2015-16 had failed to make investment for transmission infrastructure a priority. Realising that the sanitation coverage in India continues to be low, the Centre granted Rs 9,000 crore in the 2016-17 Budget to the Swachh Bharat Abhiyan (SBA) for rural sanitation. The Union Budget for 2017-18 has been announced by Mr Arun Jaitley, Union Minister for Finance, Government of India, in Parliament on February 1, 2017. Budget 2017-18 contains three major reforms: advancement of date of presentation, merger of railway budget with general budget, done away with Plan and non-Plan expenditure. On February 1, 2018, the Union Minister for Finance, Government of India, announced the Union Budget for 2018-19. The budget focuses on uplifting the rural economy and strengthening the agricultural sector, healthcare for the economically less privileged, creating infrastructure, and improving the quality of education in the country. 5th of July, 2019 will be earmarked as a historic event; India's first woman finance minister presented her maiden budget on behalf of the second-time-elected BJP government. Post the pre-election Interim Budget that was presented in February 2019, Union Budget 2019, was designed to boost infrastructure, aid the economy and promote foreign investment in the backdrop of the impending economic slowdown. Sitharaman mandated adequate changes to spur the growth of the nation and laid down the ambitious plan of the $5 trillion economy. In 2020, presenting the first Union Budget of the third decade of 21st century, Finance Minister Smt. Nirmala Sitharaman, today unveiled a series of far-reaching reforms, aimed at energizing the Indian economy through a combination of short-term, medium-term, and long-term measures. Faced with the daunting twin tasks of pulling back the economy from the clutches of de-growth, a slew of fiscal and non-fiscal measures were taken during the year to rebound the economy from the aftermath of the pandemic. This is evidenced by the pre-budget Economic Survey's projection of 11% growth in real GDP for 2021.

Laying a vision for AtmaNirbhar Bharat, the Hon'ble Finance Minister has rested the budget proposals on six pillars – health and wellbeing, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R&D, and minimum government - maximum governance. The Union Budget 2022-23 seeks to complement macro-economic level growth with a focus on micro-economic level all-inclusive welfare. The budget aims to lay a strong foundation to steer the Indian economy towards Amrit Kaal for the next 25 years, from India at 75 years to India at 100. India posted a 9.2% GDP growth, the highest among all economies. We are amid the Omicron wave, the speed of our vaccination campaign has helped dramatically. The FM stated that 'Sabka Prayaas' will continue with strong growth. Budget 2022 has provided a sharp increase in public investment and capital expenditure provision. Strategic transfer of ownership of Air India has been completed.

Budget – 2023:

The Union Finance Minister Nirmala Sitharaman on the 1st of February 2023 presented the last full-fledged Budget of the current government before the next Lok Sabha elections due in 2024. The following are the some of the highlights of the Union Budget 2023-24.

- The Union Budget 2023-24 aims to build on the foundation laid in the previous Budget, and formulates a blueprint for **India@100.**
- The government through the Budget 2022-23 has envisioned laying a strong foundation to steer the Indian economy towards **Amrit Kaal**.
    - Amrit Kaal is the term coined by the government to mark the 25-year period till 2047 when India will celebrate 100 years of Independence.
- **Vision for Amrit Kaal:** The government's vision for Amrit Kaal is to create a technology-driven and knowledge-based economy with strong public finances, and a robust financial sector.
- In order to achieve this vision, the focus has been laid on:
    - Creating opportunities for citizens, particularly the youth to fulfil their aspirations.
    - Providing a strong impetus to growth and employment generation.
    - Improving and strengthening macroeconomic stability.
- The Union Finance Minister has listed **seven key priorities** which would complement each other and act as the "**Saptarishi**" guiding the government through the Amrit Kaal. They include:
    - Inclusive Development
    - Reaching the Last Mile
    - Infrastructure and Investment
    - Unleashing the Potential
    - Green Growth
    - Youth Power
    - Financial Sector

15.2 INTRODUCTION TO FISCAL POLICY

Fiscal policy is the use of spending levels and tax rates to influence a nation's economy. It is the sister strategy to monetary policy, where a government or central bank influences an economy by adjusting the nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions. These include aggregate demand for goods and services, employment, inflation, and economic growth. During a recession, the government may lower tax rates or increase spending to encourage demand and spur economic activity. Conversely, to combat inflation, it may raise rates or cut spending to cool down the economy. Fiscal policy is often contrasted with monetary policy, which is enacted by central bankers and not elected government officials.

Fiscal policy is defined as the policy under which the government uses the instrument of taxation, public spending and public borrowing to achieve various objectives of economic policy. Simply put, it is the policy of government spending and taxation to achieve sustainable growth. Fiscal policy is often contrasted with monetary policy which is regulated by the central bank. It is largely inspired by the ideas of British economist John Maynard Keynes whose theories were developed in the response to the Great Depression.

15.2.1 Objectives of Fiscal Policy

The objectives of a fiscal policy may vary- from spending on public asset creation like roads, railways and other infrastructural works to public health and safety to promoting education, payment of salaries, subsidies, pensions etc. It also aims to incentivise private sectors to scale up their operations that directly or indirectly influence the economy of a country. The tools of fiscal policy also aim to stabilise the economy during various inflationary pressures. In the short term, the governments may focus on macroeconomic stabilisation by cutting taxes and increasing spending to boost a weak economy or increase taxes and reduce spending during inflation. In the long term, it may focus on sustainable growth and the reduction of poverty.

1. Price Stability

This policy primarily controls the absolute regulation of prices for all goods or things. It regulates prices while the nation is through an economic crisis and keeps them steady during an inflationary time; as a result, it regulates prices throughout the nation. By regulating the supply of essential goods and services, the government supports price stability. As a result, it invests money in rationing and stores with reasonable prices and a sufficient supply of food grains. Additionally, it provides subsidies for utilities like transportation, water, and cooking gas, keeping their prices low enough for regular people to afford.

2. Full Employment:

Employment should be the top priority in every nation that needs to better its economic situation. India has the highest number of young people, which increases the likelihood of development. The younger generation is more capable than the older generation in several areas. Therefore, if our nation could offer full or almost full employment, it would elevate our economic statistics to the next level. The Fiscal policy guides all choices pertaining to employment. The government creates more job opportunities in a number of different ways.

3. Economic Growth

Specific fiscal policy initiatives can boost the nation’s growth rate and aid in meeting its needs. The establishment of heavy industries like steel, chemicals, fertilisers, and industrial machinery is one way the government promotes economic growth. It also builds infrastructures that support economic development, including roads, bridges, railways, schools, hospitals, water and electricity supplies, telecommunications, and so forth.

4. Infrastructure Development

In order to achieve economic growth, the government has prioritized infrastructure construction. Taxation and other fiscal policy initiatives bring in money for the state. The development of the infrastructure is funded in part by tax money. All economic sectors benefit as a result of this.

5. Decreasing the payment deficit

Fiscal measures like the exclusion of income tax on export revenues, the exclusion of central excise charges and customs, the exclusion of sales tax and octroi, etc. are all attempts by fiscal policy to increase exports. The balance of payments problem is helped by the foreign exchange saved through import substitutes and earned through exports. In this method, a negative balance of payments can be fixed by taxing imports or by subsidizing exports.

6. Effective Regional Development

Balanced regional development is one of the fiscal policy's other primary goals. The government offers a variety of incentives for establishing projects in underdeveloped areas, including cash subsidies, Tax holidays are a type of tax and duty concession. financing with lowered interest rates, etc

15.2.2 Types of Fiscal Policy

These fiscal policies are used according to the requirements of the economic phase, sometimes for the boom and sometimes to slow down the recession. There are three types of fiscal policy majorly, which are discussed below:

1. Expansionary Fiscal Policy

These entail the choices made by the governments to increase their financial contributions to the national economy. Thus, it produces a large number of goods and services. Additionally, it expands employment prospects, increasing both individual and governmental profits as a result of all the growth.

2. Contractionary Fiscal Policy

The second kind of fiscal policy is this one. When there is an economic boom, this is employed. The rapid economic expansion can occasionally be risky, though. The government is attempting to halt the current economic boom in this instance. Both inflation and economic growth are controlled by this, which also aids in doing so.

3. Neutral Fiscal Policy

When the country's economy is in balance, this fiscal policy is employed. With economic highs and lows, it suggests things are moving well. It covers expenditures made by the governments that are paid for through taxes levied against citizens, businesses, or sectors of the economy. and won't have any impact on the nation's economic situation.

15.2.3 The Components of Fiscal Policy

There are three components of the Fiscal Policy of India:

1. Government Receipts
2. Government Expenditure
3. Public Debt

1. Government Receipts

These government receipts take into account the government's income, which has been achieved through the collection of taxes, interest, and the revenue produced by investments, cess, and other forms of revenue the nation has generated. This represents the total funding received by the government from all sources. There are two types for government receipts. Income Receipts Any government payment that neither increases liabilities nor decreases assets is referred to as a revenue receipt. Revenues from taxes and other sources can also be separated out from this. The interests and dividends earned on government investments, as well as cess and some other receipts, constitute non-tax revenues. Direct tax and indirect tax make up the two categories of tax revenues.

(a) Capital Receipts

All government payments that increase liabilities or decrease assets are considered capital receipts. These funds are used by the governments to run smoothly. Another kind of capital receipt is the existence of an incoming cash flow. It is known as a debt receipt if the government borrows money since the money must be repaid to the government from whom it was borrowed. Non-debt receipts are those payments that do not require repayment. Non-debt receipts make up around 75% of all budgets. Loans taken by the general public, some foreign governments, and the Reserve Bank of India make up the majority of capital receipts.

(b) Revenue Receipts

Non-debt receipts are those payments that do not require repayment. Non-debt receipts make up around 75% of all budgets. Loans taken by the general people, some foreign governments, and the Reserve Bank of India make up the majority of capital receipts (RBI).

2. Government Expenditure

The public expenditure can broadly be classified into two major types namely revenue expenditure and capital expenditure.

(a) Revenue expenditures

They are one-time costs that are incurred now or usually within a year. Revenue expenditures are essentially the same as operating expenses since they cover the charges necessary to cover the government's continuing operational costs (OPEX). regular costs for upkeep and repairs on state-owned property. Unlike most capital expenditures, which are one-time costs, they are ongoing expenses. An illustration would be paying for electricity, rent, employee salaries, and government-owned property taxes.

(b) Capital Expenditure

Investments made by the government in capital to run or grow its operations and bring in more money. Purchasing long-term assets, such as equipment, and purchasing fixed assets, which are tangible assets. Therefore, compared to revenue expenditures, capital expenditures are frequently for bigger sums. An illustration would be the acquisition of manufacturing equipment, commercial purchases, other government expenditures like furniture, infrastructure investment, etc.

3. Public Accounts of India (Public Debt)

When the government is only acting as a banker in a transaction, the Public Account of India records the flows for those transactions. According to Article 266(2) of the Constitution, this fund was established. It takes into consideration flows for transactions in which the government only serves as a banker. Examples include minor savings, provident funds, etc. This money doesn't belong to the government; instead, they must be returned to their original owners at some point. Consequently, the Parliament is not required to authorize spending from the public account.

15.2.4 Instruments of Fiscal Policy

Some of the major instruments of fiscal policy are A. Budget , B. Taxation, C. Public Expenditure , D. Public Works and E. Public Debt.

A. Budget:

The budget of a nation is a useful instrument to assess the fluctuations in an economy. Different budgetary principles have been formulated by the economists, prominently known as:

(1) Annual budget,

(2) cyclical balanced budget and

(3) fully managed compensatory budget.

1. Annual Balanced Budget:

The classical economists propounded the principle of annually balanced budget. They defended it with force till the deep rooted crisis of 1930's.

2. Cyclically Balanced Budget:

The cyclical balanced budget is termed as the 'Swedish budget'. Such a budget implies budgetary surpluses in prosperous period and employing the surplus revenue receipts for the retirement of public debt. During the period of recession, deficit budgets are prepared in such a manner that the budget surpluses during the earlier period of inflation are balanced with deficits. The excess of public expenditure over revenues are financed through public borrowings. The cyclically balanced budget can stabilize the level of business activity. During inflation and prosperity, excessive spending activities are curbed with budgetary surpluses while budgetary deficits during recession with raising extra purchasing power.

3. Fully Managed Compensatory Budget:

This policy implies a deliberate adjustment in taxes, expenditures, revenues and public borrowings with the motto of achieving full employment without inflation. It assigns only a secondary role to the budgetary balance. It lays down the emphasis on maintenance of full employment and stability in the price level. With this principle, the growth of public debt and the problem of interest payment can be easily avoided. Thus, the principle is also called 'functional finance.'

B. Taxation:

Taxation is a powerful instrument of fiscal policy in the hands of public authorities which greatly effect the changes in disposable income, consumption and investment. An anti-depression tax policy increases disposable income of the individual, promotes consumption and investment. Obviously, there will be more funds with the people for consumption and investment purposes at the time of tax reduction.

This will ultimately result in the increase in spending activities i.e. it will tend to increase effective demand and reduce the deflationary gap. In this regard, sometimes, it is suggested to reduce the rates of commodity taxes like excise duties, sales tax and import duty. As a result of these tax concessions, consumption is promoted. Economists like Hansen and Musgrave, with their eye on raising private investment, have emphasized upon the reduction in corporate and personal income taxation to overcome contractionary tendencies in the economy.

Now, a vital question arises about the extent to which unemployment is reduced or mitigated if a tax reduction stimulates consumption and investment expenditure. In such a case, reduction of unemployment is very small. If such a policy of tax reduction is repeated, then consumers and investors both are likely to postpone their spending in anticipation of a further fall in taxes. Furthermore, it will create other complications in the government budget

C. Public Expenditure:

The active participation of the government in economic activity has brought public spending to the front line among the fiscal tools. The appropriate variation in public expenditure can have more direct effect upon the level of economic activity than even taxes. The increased public spending will have a multiple effect upon income, output and employment exactly in the same way as increased investment has its effect on them. Similarly, a reduction in public spending, can reduce the level of economic activity through the reverse operation of the government expenditure multiplier.

(i) Public Expenditure in Inflation:

During the period of inflation, the basic reason of inflationary pressures is the excessive aggregate spending. Both private consumption and investment spending are abnormally high. In these circumstances, public spending policy must aim at reducing the government spending. In other words, some schemes should be abandoned and others be postponed. It should be carefully noted that government spending which is of productive nature, should not be shelved, since that may aggravate the inflationary dangers further.

However, reduction in unproductive channels may prove helpful to curb inflationary pressures in the economy. But such a decision is really difficult from economic and political point of view. It is true, yet the fiscal authority can vary its expenditure to overcome inflationary pressures to some extent.

(ii) Public Expenditure in Depression:

In depression, public spending emerges with greater significance. It is helpful to lift the economy out of the morass of stagnation. In this period, deficiency of demand is the result of sluggish private consumption and investment expenditure. Therefore, it can be met through the additional doses of public expenditure equivalent to the deflationary gap. The multiplier and acceleration effect of public spending will neutralize the depressing effect of lower private spending's and stimulate the path of recovery.

D. Public Works:

Keynes General Theory highlighted public works programme as the most significant anti-depression device. There are two forms of expenditure i.e., Public Works and 'Transfer Payments. Public Works according to Prof. J.M. Clark, are durable goods, primarily fixed structure, produced by the government. They include expenditures on public works as roads, rail tracks, schools, parks, buildings, airports, post offices, hospitals, irrigation canals etc. Transfer payments are the payments such like interest on public debt, subsidy, pension, relief payment, unemployment, insurance and social security benefits etc. The expenditure on capital assets (public works) is called capital expenditure. Keynes had strong faith in such a programme that he went to the extent of saying that even completely unproductive projects like the digging up of holes and filling them up are fully admissible.

E. Public Debt:

Public debt is a sound fiscal weapon to fight against inflation and deflation. It brings about economic stability and full employment in an economy.

15.2.5 Need for Fiscal Policy

Governments need a fiscal policy because it gives them the power to affect the level of economic activity in a nation. It is one of the key strategies employed by governments to maintain economic stability and achieve their goals. There are several reasons why fiscal policy is necessary:

I. In periods of recession or poor growth, fiscal policy can be utilized to boost the economy. To encourage consumer spending and investment, for instance, a government can raise spending or lower taxes. This can assist in boosting economic activity and rescuing a struggling economy.

II. Inflation can be decreased by fiscal policy. Prices can increase quickly if an economy is expanding too quickly and there is an excessive amount of demand for goods and services. A government may raise taxes or cut spending in order to slow down economic growth and lower inflation.

III. It enables governments to pay for the services and programs they offer their populations. Governments rely on tax money to pay for things like infrastructure, healthcare, and education. Governments can make sure they have the funds available to deliver these services by altering their budgetary policies.

15.2.6 How Does Fiscal Policy Affect People?

People can be impacted by fiscal policy in a variety of ways. Changes in tax law are one way that fiscal policy can have an impact on people. If the government raises taxes, people and companies could have less money available to spend, which could limit economic growth. On the other hand, if the government lowers taxes, people and businesses might have more money that they can spend, which could promote economic expansion.

Changes in government spending can have an influence on people as a result of changes in fiscal policy. If the government increases spending on services or programs like healthcare or education, the people who use these programs may immediately benefit. However, if the government makes cuts to its spending on programs or services, those whose lives depend on them may suffer.

Finally, the impact of fiscal policy on the whole economy can have an impact on people. Increased employment possibilities and greater earnings for workers may result from fiscal policy's success in encouraging economic growth and stabilizing the economy. However, ineffective fiscal policy may result in slower growth and economic instability, which could have a detrimental impact on individuals.

15.2.7 Handles of Fiscal Policy:

Fiscal policy is created and carried out by the government in the majority of nations. This can occur at the national level, when the federal government is in charge of formulating fiscal policy, or at the regional or municipal level, where those governments have some discretion in doing so. The finance ministry or the treasury department often oversees fiscal policies at the federal level. These organizations are in charge of handling the budget and revenue of the government, as well as choosing how to distribute cash and modify fiscal policy. In some nations, fiscal policy may also be developed and coordinated by a different organization or council.

A municipal council, a state or provincial government, or other local governmental organizations may be in charge of fiscal policy at the regional or local level. These governments may have a certain amount of independence in deciding on fiscal policy, but they may also be subject to directives or restrictions from the federal government.

15.3 FRBM ACT, 2003

In India, the borrowing levels were very high in the 1990s and 2000s. Indian Economy was weak as it had high Fiscal Deficit, high Revenue Deficit, and high Debt-to-GDP ratio. By 2003, the continuous government borrowing and the resultant debt had severely impacted the health of the Indian economy. Much of the borrowing was utilized for interest payments of previous borrowings, but not for productive-purposes. This resulted in interest payments becoming the largest expenditure item of the government. Many economists then warned the government that this condition is not sustainable. They advised legal steps to prevent India to fall into a debt-trap.

Parliamentarians of India too felt that there should be control on the government of India not to resort to a high level of borrowing to fund its expenditure. Hence in 2000, they introduced a bill to bring responsibility and discipline in matters of expenditure and debt. This bill was passed by the Indian Parliament in 2003 and came to be known as the **Fiscal Responsibility and**

Objectives of the FRBM Act

The main objectives of the act were:

1. to introduce transparent fiscal management systems in the country.
2. to introduce a more equitable and manageable distribution of the country's debts over the years.
3. to aim for fiscal stability for India in the long run

Additionally, the act was expected to give the necessary flexibility to Reserve Bank of India (RBI) for managing inflation in India.

Provisions of the Fiscal Responsibility and Budget Management Act

The FRBM rules mandate **four fiscal indicators** to be projected in the medium-term fiscal policy statement. These are:

1. revenue deficit as a percentage of GDP
2. fiscal deficit as a percentage of GDP.
3. tax revenue as a percentage of GDP.
4. total outstanding liabilities as a percentage of GDP.

The FRBM Act set targets for fiscal deficit and revenue deficit. The FRBM act also provided for certain documents to be tabled in the Parliament of India, along with Budget, annually with regards to the country's fiscal policy. This included the Medium-term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macro-economic Framework Statement, and Medium-term Expenditure Framework Statement.

15.4. SUMMARY

A system of indicative planning reliance on fiscal policy as an instrument of development is considerable. The Planning Commission had stated in the Seventh Five yar Plan, "through it (Fiscal Policy) the Government creates and sustains the public economy consisting of the provision of public services and public investment; at the same tme it is an instrument for reallocation of resources according to national priorities, redistribution, promotion of private savings and investments, and the maintenance of stability". Thus Fiscal policy has a multi-dimensional role.

15.5 KEY WORDS

1. **Budget of India :** The Union Budget of India, referred to as the annual Financial Statement in Article 112 of the Constitution of India, is the annual budget of the Republic of India, presented by the Finance Minister of India in Parliament.
2. **Balanced Budget :** It is a financial planning or the budgeting process where total expected revenues are equal to total planned spending.
3. **Surplus Budget :** surplus budget is **a condition when incomes or receipts overreach costs or outlays (expenditures)**. A surplus budget normally refers to the financial conditions of the governments.

4. **Deficit Budget :** A budget deficit **occurs when expenditures surpass revenue and then up impacting the financial health of a country**. In recent times most of the governments opting this type of budget.
5. **Fiscal policy**: It is defined as the policy under which the government uses the instrument of taxation, public spending and public borrowing to achieve various objectives of economic policy. Simply put, it is the policy of government spending and taxation to achieve sustainable growth.

15.6 SELF ASSESSMENT QUESTIONS

Essay Type

1. Explain the objectives of Fiscal Policy
2. Examine the various instruments of Fiscal Policy
3. Analyze the process of Indian Budget
4. Write an essay on Budget Trends in India

Short Answer

1. Types of Fiscal Policy
2. Components of Fiscal policy
3. Need for Fiscal Policy
4. FRBM Act
5. Budget, 2023

15.7 SUGGESTED READINGS

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LESSON – 16

CENTRE-STATE RELATIONS AND FINANCE COMMISSION

Aims and Objectives:

After completing the lesion the student is able to

- ✓ To have knowledge on Legislative, administrative and financial relations between the Centre and State Governments
- ✓ To have knowledge on the various Finance commissions and their recommendations.

Structure

16.1 Introduction

16.2 Evaluation of Centre-State relations:

16. 2.1 Centre-state relations on legislative matters?

16. 2.2. Centre-state relations on administrative matters

16.2.3 Centre-state relations on financial Relations

16.2.4 Issues pertaining to Centre-state relations in India

16.2.5 Major Areas of Tension between Centre and State

16.3 Finance Commission

16.3.1 Functions of Finance Commission

16.3.2 Role of Finance Commission In India

16.3.3 Legal Status of Finance Commission

16.3.4. Major Recommendations of Finance Commissions

16.4 Summary

16.5 Key word

16.6 Self Assessment Questions

16.7 Suggested Readings

16.1 INTRODUCTION

The term "federalism" is not specifically mentioned in the Constitution, but a conclusion can be formed regarding a governance structure that is largely federal. K.C. Wheare, father of contemporary federal theories, defined federalism as "the method of dividing power so that general and regional governments are each within a sphere co-ordinate and independent." He called the Indian Constitution as quasi-federal in nature i.e., 'federation sui generis' or federation of its own kind. In a federal country, Centre-State Relations are an important component of politics because they teach us about the dual character of having power divided between the Centre and the states. In their respective domains, the Centre and the State are regarded as superior. The Indian Constitution refers to the country as a "Union of States."

16.2 EVALUATION OF CENTRE-STATE RELATIONS

The evolution of Centre-State Relations can be classified into 4 different phases, with the first phase beginning in 1950 for 17 years and finally culminating with the fourth phase beginning from 1989. The government of India had appointed the Sarkaria Commission in

1983 to reduce the conflicts between the Central Government and State Governments. Broadly the relations between centre and state will be with respect to legislative matters, administrative matters and financial matters.

16. 2.1 Centre-state relations on legislative matters?

Articles 245 and 255 deals with legislative relations between the Union and the states, specifically the Parliament and state legislatures. It analyses the scope of the Union's and states' legislative powers. Analyzing the provisions reveals that the Parliament evidently has superseding powers over state legislatures. The different provisions define the subjects on which they can legislate, the consequence of inconsistency between state and national law, the Parliament's residuary powers, and many other provisions. Schedule VII, addresses the Union List, State List, and Concurrent List.

Part XI of the Constitution deals with the legislative relations between the Centre and the states in **Articles 245 to 255.** Different aspects in the Centre-state relations are as follow:

Territorial Extent of Central and State Legislation	
State legislature	Can enact laws that apply to the whole or any part of the state.
Parliament	Authority to enact laws for whole or any part of the territory of India Extra-territorial legislation
Distribution of legislative subjects	
Union List	The Union Parliament has exclusive powers to make legislation on the matters included in the Union List.
State List	The State Legislatures have exclusive powers to make legislation on the matters incorporated in the State List.
Concurrent List	Both the Centre and states can make laws on the subjects included in the Concurrent list.
Article 248	The **Residuary powers are given to the Centre**, and the Parliament of India alone can make legislation on the subjects not included in any of the above three lists.
Parliamentary Legislation in the State Field	
Article 249	If the Rajya Sabha passes a resolution by a majority of two-thirds of its members requesting Parliament to make law on a subject of State List.
Article 250	Parliament to make laws on any State List subjects during a national emergency. However, the Parliament's laws under this provision will cease to operate on the expiration of six months of the emergency.
Article 252	If **two or more States' legislatures request** Union Parliament through a resolution to make a law on a particular subject mentioned in the State List.
Article 253	Parliament to make law for the whole or any part of India's territory for implementing any treaty, international agreement or convention with any other country.
Article 356	During the **proclamation of President's Rule** in a State, the Union Parliament makes the laws over the subjects included in the State List.
Centre's Control Over State Legislation	

Article 200	The Governor can reserve specific bills passed by the state legislature for the consideration of the President of India.

16. 2.2. **Centre-state relations on administrative matters:**

Articles 256 to 263 deal with administrative relations, including those between the Central Government and several state governments. Though India is federal, it has unitary characteristics, and so Article 256 states that state governments must ensure that they follow the laws passed by Parliament and do not conduct any executive or administrative functions in violation of the same.

To establish improved relations between the Centre and the states, the Sarkaria Commission advocated for cooperative federalism in administrative relations between the two. The same was crucial since multiple parties working at the federal and state levels frequently create turmoil and distrust, leading to inefficient administration.

16. 2.2.1 Distribution of Executive Powers

The centre's power encompasses the entire nation when it comes to matters over which it has exclusive jurisdiction (union list), as well as when it exercises any rights, jurisdiction, or authority granted to it by a treaty or agreement.

- The subjects listed in the state list fall under the state's purview.
- The states have the executive authority in matters involving the concurrent list.
- The state's executive branch must act in a way that ensures the laws established by Parliament are upheld.
- A state's executive power may not be interfered with or affected in any way.

16. 2.2.2 The Obligation of States and the Centre

The constitution has placed two restrictions on the executive power of the states in order to give ample scope to the centre for exercising its executive power in an unrestricted manner.

- The state's executive branch must act in a way that ensures the laws established by Parliament are upheld.
- As not to prejudice the executive power of the centre in the state.

In both cases, the executive power of the Centre extends to giving such directions to the state as are necessary for the purpose. The sanction behind these directions of the Centre is coercive in nature.

Thus, **Article 365** says that where any state has failed to comply with any directions given by the Centre, it will be lawful for the President to hold that a situation has arisen in which the government of the state cannot be carried on in accordance with the provisions of the Constitution. It means that, in such a situation, the President's rule can be imposed in the state under **Article 356**.

16. 2.2.3 Centre's Direction to the States

In Centre-State Relations, the following circumstances are where the Centre may provide advice to states:

- Construction and maintenance of communication systems deemed to be of national or military importance by the government.
- Actions to be taken to guarantee the state's railways are safe.
- Provision of enough resources for students from linguistic minority groups to receive elementary school instruction in their home tongue.
- The creation and execution of specific initiatives for the ST's welfare in the various states.

16. 2.2.4 Mutual Delegation of Functions

To decrease rigidity and prevent a deadlock, the constitution permits intergovernmental delegation of executive authorities. With the state government's approval, the president may delegate the union's executive functions to it. The governor may delegate the executive responsibilities of the state to the union with the approval of the federal government. This agreement to share authority may be either conditional or unconditional. The constitution also permits the state to provide the union executive authority without the state's consent. But such delegations are made by Parliament, not by the President. The executive authority of a state, however, cannot be transferred in the same manner.

16. 2.2.5 Cooperation between Centre and States

The following provisions have been included to ensure cooperation and coordination between the centre and the states. Parliament has the authority to rule on any dispute or grievance involving the use, distribution, and management of any interstate river's and river valleys' water resources. The President has the power to convene an inter-state council to examine and deliberate on subjects of common interest between the centre and the states. All of India is required to provide full faith and credit to the public actions, records, and judicial proceedings of the federal government and each state. In order to carry out the constitutional requirements relating to interstate trade, commerce, and intercourse, Parliament has the authority to designate the proper authorities.

Distribution of Executive Powers	
Union Government	Executive power extends to all the subjects on which Parliament can make laws
State Government	Executive power shall be exercised in conformity with the laws made by the Union Parliament.
Centre's directions to the States	
Article 256	Every state's executive power is to be exercised in such a manner as to ensure compliance with the laws made by the Union Parliament.
Article 257	Control of the Union over States in certain cases.
Relation during emergencies	
National emergency	The Centre has the executive power to direct any state regarding the manner in which the executive power is to be exercised.
President's rule	The Union Government can take direct control over State machinery. The President (that means the central government) takes over any of the State Government's functions.
Public service commission	
State public service commission	The Governor appoints the state public service commission's chairman and members, but only the president has the authority to remove them.
All Indian Services	
Control of Centre and state control	The Centre has ultimate control over these services, whereas states exercise immediate and relatively less control.
Other Provisions	
Article 355	It shall be the duty of the Union to protect every State against external aggression and internal disturbance.
Appointment of	The Governor of a State shall be appointed by the President by

Governor	warrant under his hand and seal. He holds office during the pleasure of the President.
Appointment of State Election Commissioner	The state election commissioner is appointed by the Governor but removed only by the President.

16.2.3 Centre-state relations on financial Relations:

Till Independence, the history of Indian fiscal federalism was the history of decentralization of financial powers from the Central Government to Provincial Governments. The first step by which the provinces were given some heads of revenues was taken in 1871 when income from certain heads like registration, police, jails, medicine, education, roads and civil works was handed over to the provinces. It was only in 1904 that a system of divided heads of revenue was adopted on a quase-permanent basis ad was made permanent in 1912. With the introduction of Government of India Act, 1919 various matters of regional and local importance went to the Provincial Governments such as education, punlic health, local self-government etc. But the matters of National importance like defence, currency and mint, foreign affairs etc were left with Central Government. Later in 1921-22, a Financial Relations Committee under the Chairmanship of Lord Meston was constituted to recommend a scheme of provincial contributions to the Central Government. It recommended 'Standard Contributions' Scheme. The Government of India, 1935 Act laid a firm foundation for financial federalism, the structure of which was to form the main basis for the financial federalism after Independence.

Part XII of the Constitution, Articles 264 to 293, deal with financial relation between the Centre and the State. Because India is a federal country, it adheres to the division of powers when it comes to taxation, and it is the responsibility of the Centre to allocate funds to the states. All such connected provisions have been addressed in this document. Schedule VII describes the ability of the Centre and states to levy taxes. Furthermore, it contains numerous regulations concerning the levy and allocation of taxes by the center and states, grants to states, surcharges, and so on. The Goods and Services Tax, a dual structure tax, is a recent example of a financial center-state relationship.

16. 2.3.1 Allocation of Taxing Power

- Taxation of the subjects on the Union list is the sole responsibility of Parliament.
- Taxation on the things included in the state list may only be done by the state legislature.
- The items on the concurrent list are subject to taxation by both the state and the union.
- The residuary power to tax belongs to the Parliament.

The Constitutional Restriction on the State's Taxation Power

The power to tax occupations, trades, callings, and professions belongs to the state legislature. However, no one should receive more than Rs 2500 in total compensation each year.

Taxes on the sale or purchase of products can be imposed by a state (other than a newspaper). However, The following factors restrict the state's capacity to impose a sales tax:

- Sales and purchases made outside of the states are exempt from taxation
- Sales or purchases done during the import or export process are exempt from taxation.
- No tax may be levied on a transaction or purchase made during interstate trade or commerce.

- A tax imposed on goods sold or bought that the Parliament has determined are of particular importance to interstate trade and commerce is subject to the limitations and specifications set forth by the Parliament.

Electricity used by or sold to the centre, as well as electricity used in the building, upkeep, or operation of any railway by or sold to the railway company for the same purpose, are exempt from state taxes. A state may charge a price for the water or electricity it sells to an interstate river authority that Parliament established to manage and develop the river. On the other hand, a law that receives the approval of the President may enact such an imposition.

16. 2.3.2 Distribution of Tax Revenues

(a) Taxes are levied by the centre, but they are collected and used by the state (**Article 268**). The state's consolidated fund receives the proceeds from this and holds them there. For instance, excise tax and stamp duty. One illustration would be taxes imposed on goods purchased or sold in interstate commerce. The state's consolidated fund receives the proceeds from this and holds them there. Although the federal government imposes and collects taxes, they are divided between the federal government and the states (**Article 270**). This category includes all taxes, with the exception of the ones mentioned above, surcharges, and cess. Based on the Finance Commission's recommendations, the President determines how these taxes are divided.

The tax and levies surcharges mentioned in **Articles 269** and **270** may be enacted at any time by Parliament. Proceeds from the surcharge are only used for the centre. State-imposed gathered, and held-back taxes consist of:

- These are the taxes that fall under the purview of the states only.
- They are listed on the state list.
- Agriculture income taxes, Alcohol excise taxes, Profession-specific taxes, Ceilings, etc.

(b) Distribution of Non-Tax Revenues

The centre's primary non-tax revenue sources are as follows:

- Postal and telegraph services
- Railroads
- Banking
- Broadcasting
- Coinage and currency
- Central public sector enterprise
- Escheat and lapse.

The main sources of non-tax revenue for states are as follows:

- Irrigation
- Forests
- Fisheries
- State public sector enterprise
- Escheat and lapse.

(c) Grants-in-Aid to the states

State grants-in-aid are permitted by the Constitution to come from the federal government. The two types of grants-in-aid are statutory grants and discretionary grants.

i. Statutory grants:

The parliament is empowered by **Article 275** of the Constitution to provide grants to states that specifically require them rather than to all states. These amounts may vary for various states. These funds are levied annually to the Consolidated Fund of India. Depending on the Finance Commission's recommendations, these are given to the states.

ii. Discretionary grants:

Article 282 gives both the federal government and the states the authority to provide grants for any public purpose, even if it is not within their purview. The choice is entirely up to the centre, which is under no obligation to offer these subsidies.

iii. Other grants:

A one-time donation for a particular cause was permitted by the Constitution. For the states of Assam, Bihar, Odisha, and West Bengal, grants on jute and jute products could be used in place of export taxes. These funds were to be given out for ten years starting at the time the constitution was adopted, per the recommendation of the Finance Commission.

iv. Goods and Services Tax Council

The smooth and efficient administration of the goods and services tax (GST) requires cooperation and coordination between the Centre and the States. In order to facilitate this consultation process, the 101st Amendment Act of 2016 provided for the establishment of a Goods and Services Tax Council or the GST Council.

Article 279 – A empowered the President to constitute a GST Council.

The Council is a joint forum of the Centre and the States. It is required to make recommendations to the Centre and the States on the following matters :

- The taxes, cesses and surcharges levied by the Centre, the States and the local bodies would get merged into GST.
- The goods and services that may be subjected to GST or exempted from GST.
- Model GST Laws, principles of levy, apportionment of GST levied on supplies in the course of inter-state trade or commerce and the principles that govern the place of supply.
- The threshold limit of turnover below which goods and services may be exempted from GST.
- The rates include floor rates with bands of GST.
- Any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster.

Articles 268 to 293 contained in Part XII of the constitution deal with **Centre-state financial relations.**

Allocation of Taxing Powers	
Parliament and State legislature	The Parliament and State legislature have exclusive power to levy taxes on subjects incorporated in the Union list and state list, respectively.
Residuary powers	The residuary power of taxation lies with Parliament only.
Grants-in-aid	
Article 275(1)	The Parliament can issue grant-in-aid of the revenues to such States as Parliament may determine, and different sums may be fixed for different States.
Article 282	The Union or a State may make any grants for any public purpose.
Goods and Services Taxes	
The Constitution (One Hundred and First Amendment) Act 2016	To change the tax structure and introduce GST. Such an amendment can empower the Centre and the States to levy and collect GST.
Finance Commission	
Article 280	It provides for a Finance Commission as a quasi-judicial

	body. Its responsibility is to recommend the sharing of taxes between them.

16. 2.4 Issues pertaining to Centre-state relations in India:

The Indian Constitution is federal with unitary bias. Strengthening the federal system is critical for meeting the demands of people governed by state governments while also preserving India's unity. As a result, Centre-State relations, or agreements between the Union Government and the States regarding their respective powers, functions, and responsibilities, have always been crucial. The underlying structure continues to be one in which legislative, administrative, and financial authorities are excessively concentrated in the Union Government, leaving the States burdened with a slew of obligations but lacking sufficient autonomy.

The major issues in the legislative sphere related to intrusions by the Centre into State-list subjects and delays in obtaining assents for important Bills passed by the State Assemblies. In the financial sphere, the major issues related to increasing centralization of powers in the Union Government in matters like resource mobilization and allocation and other key areas of economic decision-making like Planning. With the demand for restructuring Centre-State relations gathering momentum, the Union Government had also set up the Sarkaria Commission in 1983. While this Commission took about five years to submit its report, its recommendations failed to resolve most of the basic issues mentioned above, except for some minor improvements in the financial sphere.

Such as giving powers to the municipalities to issue tax-free bonds, endorsing the Chief Ministers' decisions on consignment tax, extending slightly the time frame for over draft loans etc. It is unfortunate that even these recommendations of the Sarkaria Commission have not been implemented by the Union Government after nearly two decades. The Government of India constituted a Commission on Centre-State Relations under the chairmanship of Justice Madan Mohan Punchhi, former Chief Justice of India on 27th April 2007 to look into the new issues of Centre-State relations keeping in view the changes that have taken place in the polity and economy of India since the Sarkaria Commission had last looked at the issue of Centre-State relations over two decades ago. The Commission examined and reviewed the working of the existing arrangements between the Union and States, various pronouncements of the Courts in regard to powers, functions and responsibilities in all spheres including legislative relations, administrative relations, role of governors, emergency provisions, financial relations, economic and social planning, Panchayati Raj institutions, sharing of resources including inter-state river water etc. The Commission made 273 recommendations in its seventh volume report presented to Government on 30 March 2010.

These are issues pertaining to Centre-state relations:

- **Allocation of resources:** There is often a dispute between the Centre and the states over the allocation of resources, including funds, taxes, and other benefits.
  - With the introduction of the GST, revenue collection and sharing have been streamlined. Yet, there are concerns relating to the revenue-sharing criteria used by the Finance Commission.
- **Challenging Centre law:** Kerala has filed a suit in the Supreme Court of India seeking to declare the CAA as unconstitutional. Chhattisgarh has also filed a similar suit, challenging the constitutional validity of the National Investigation Agency Act.

- **Misuse of article 356:** It is said that Article 356 was nearly always employed for political purposes rather than a real breakdown of the constitutional machinery. Different cases have been seen in Arunachal Pradesh and then in Uttarakhand.
- **Office of Governor:** The initial point of tension is that the Centre appoints the Governor as if he/she is a representative of the Centre, and the Centre government has found in the office of the Governor an effective instrument to recapture power for itself.

16.2.5 Major Areas of Tension between Centre and State:

The Constitution endows the Central government with increased authority, and their meddling in the administration of the States has produced serious difficulties in the Centre-State relationship.

The following are crucial:

1. **Imposition of President's Rule:** The President's Rule was imposed under Article 356 to cope with extreme crises and as a last resort. However, it has been misused numerous times by:
    a. Dismissing a state government having majority in the Assembly
    b. Suspending and dissolving the Assembly in a partisan consideration.
    c. Not giving a chance to the opposition to form government when electoral verdict is indecisive.
    d. Denying opportunity to the opposition to form a government when a ministry resigned in anticipation of a defeat on the floor of the House.
    e. Not allowing the opposition to form government even after the defeat of a ministry on the floor of the House.
2. **Deployment of Central Forces:** Many times, the Centre deploys paramilitary forces into the States to preserve peace and order without consulting the State's Government, and occasionally even against the preferences of the relevant State.
3. **Reservation of Bill:** The right of a Governor to reserve a Bill enacted by a State Legislature for the President's assent is another source of contention, as a Governor usually reserved a Bill against the advice of a State's Ministry, but on the advice of the Central Government. A Governor frequently uses this authority to serve the interests of the Central Government.
4. **Fiscal Matters:** Tensions arise with regards to fiscal matters because of:
    a. Comparative powers of taxation.
    b. Statutory versus discretionary grants.
    c. Economic planning.

(a) Taxation power:

The Central control vast resources granted through deficit financing, loans from organized money market in the country as well as in the form of foreign aid. In addition, the Central can collect surcharge on taxes and raise additional funds in times of emergency. On the other hand, the States do not have enough resources to discharge their responsibilities and sometimes failed to mobilize their own resources. Thus, the States remain dependent on the Centre.

(b) Statutory versus discretionary grants:

There are four methods of devolution of funds from the Centre to the States, viz, Obligatory sharing of Union taxes on income, assignment of certain Union duties taxes and wholly to the States, permissive sharing of Union excise duties, provision for giving financial assistance to the States in the form of grants and loans. Even though the Finance Commission was set up to regulate, coordinate and integrate the finance of the Central and State Government, the

Planning Commission has undermined the power of the Finance Commission. As the Planning Commission is a Central institution and the provisions for grants-in-aid are used for political purpose, there is a general feeling that the Centre discriminates on the basis of political party consideration.

(c) E**conomic Planning:** Planning has been intended to push the Indian political system towards greater centralization. The provision relating to industries which was initially in the State List was transferred to the Union List without an amendment to the Constitution in the name of its being expedient for the public interest. It is also alleged that in the name of national planning, the funds for important State's projects are being delayed by the Central for political considerations.

16.2.6 Important Recommendations on Centre-State Relations

Administrative Reforms Commission

- The creation of an interstate council under Article 263 of the constitution
- Appointment of governors with substantial expertise in public service and impartial viewpoints
- The most power has been granted to states.
- In order to reduce the state's reliance on the federal government, more financial resources ought to be distributed to them.
- Federal armed troops are stationed in states at their request or on their own initiative.

Sarkaria Commission Recommendations

- Setting up a permanent inter-State Council under Article 263
- Article 356 should only be utilized when necessary.
- The all-India service institution needs to be strengthened.
- The residuary power of taxation should belong to the parliament.
- The states should be informed of the President's grounds for his or her vetoes of state legislation.
- Without the consent of the states, the Center ought to be able to use its military forces. However, it would be ideal if the states were consulted.
- The centre should consult the states before making law on the subject of concurrent list.
- Governors should be allowed to complete their five-year terms.
- The position of Linguistic Minority Commissioner should be filled.

Punchhi Commission Recommendations

- The impeachment process is used to remove governors after a five-year tenure.
- The Union should exercise extreme prudence when asserting Parliamentary precedence in matters given to the states.
- It specified the number of criteria to be taken into account when choosing governors:
  He ought to be well-known in some industries.
  He should not be a state resident.
  He ought to be a neutral figure who stays out of regional politics.
  He shouldn't have recently become involved in politics.
- The term limit for the government should be set at five years.
- Governors could be subject to the same impeachment process as the president.

16.3 FINANCE COMMISSION

Finance Commissions (FCs) **play a crucial role** in shaping the **fiscal federalism** and development trajectory of India. They make **recommendations on how to distribute the financial resources** between the Union and the states, as well as among the states, for a period of five years. FCs also **provide guidance and advice** on various issues related to public finance, governance and development, such as **fiscal consolidation, debt management, local bodies, disaster relief, health, education, justice delivery, statistical system,** etc. FCs have made significant contributions to enhancing the fiscal autonomy, equity and efficiency of the Union and state governments, as well as promoting cooperative and competitive federalism in the country. However, they also face several challenges and limitations in fulfilling their mandate, especially in the context of a dynamic and complex political economy environment.

The Finance Commission of India is established by the President under Article 280 of the constitution, primarily to give its recommendations on the distribution of tax revenue between the Union and State and among the States themselves. Two different features of Commission work include redressing the vertical imbalance between the powers, and the responsibility of expenditure of the center and State respectively, and the equalization of all public service across all the states.

The Finance Commission was established in 1951 by Dr B.R. Ambedkar, the then incumbent law minister, to address these imbalances. Several provisions to bridge the fiscal gap between the Centre and the States were already enshrined in the Constitution of India, including Article 268, which facilitates levy of duties by the Centre but equips the States to collect and retain the same. Similarly, Articles 269, 270, 275, 282 and 293, among others, specify ways and means of sharing resources between the Union and States.

16.3.1 Functions of Finance Commission

Following are the different functions of the Finance Commission of India:

- The distribution of net proceeds of tax between the Union and State, which are to be, or maybe, divided between them, and allocations between the states of the respective shares of such proceeds.
- The standard of conduct should manage the grant-in-aid of the revenue of the state out of the Consolidated funds of India.
- The measures required to build up the consolidated funds of a state to increase the resources of Panchayat in the state on the basis of the recommendations made by the Finance Commission of India.
- The measures required to build up the consolidated funds of a state to increase the resources of Municipalities in the state on the basis of the recommendations made by the Finance Commission of India.
- Any other transactions made by the President of India to the Commission in the interest of sound finance.

16.3.2 Role of Finance Commission In India

- The important role of the Finance Commission of India is to act as an executor to split the process of divisible taxes between the State and Union Government or in the case of taxes that are collected by the center, but the proceeds of which are distributed between the states, to determine the principles of such allocations.

- The Finance Commission distributes the proceeds of Income Tax between the Union and State. But the taxes on the payment of the Central Government are assigned only to the Union Territories.
- The President under the Article formulates the recommendations of the Finance Commission before the two houses of Parliament namely Lok Sabha and Rajya Sabha with an explanatory note as to the action to be taken on recommendations.
- The Finance Commission also regulates the rules governing the grants in support of the revenues of the state out of the consolidated fund of India. It is an important role of the Finance Commission in India. The Commission retains the responsibility of considering any issues referred to the Commission by the President in the interest of Sound Finance.

16.3.3 Legal Status of Finance Commission

The Finance Commission of India is elected by the President under Article 280 of the constitution. It has five other members including a chairperson. The recommendations of FC are implemented for five years. The recommendation of Union taxes and duties are executed by the order of the President while the orders (recommendations)including profit sharing, mode of central assistance, debt relief are executed by executive orders.

How are the Suggestions of the Finance Commission Executed?

The suggestions of the Finance Commission are executed as under:

- Those to be executed by the President's order:
  The suggestions related to the allocation of Union Taxes and Duties and Grant - in-aid falls under this category.
- Those to be executed by the Executive Orders
  Other suggestions were made by the FC according to its term of reference.

16.3.4. Major Recommendations of Finance Commissions:

First Finance Commission

The President of India appointed a Finance Commission on 1st December **1951**.

Important recommendations of this commission:

- The **States' share in the proceeds of the income tax** should be **55 percent** of the net proceeds.
- As regards the distribution among states, the basis should be as follows: 20 percent should be distributed on the basis of the relative collection of states and 80 percent on the basis of the relative population according to the census of 1951.
- Of the net proceeds of the duty levied on tobacco, matches, and vegetable products, 40 percent should be distributed to the states.
- The Centre should make conditional and unconditional grants to the states. Considerations in fixing the amounts of these grants should be the budgetary needs of the states, the standard of social services, and special burdens, which are due to floods and famines.

Second Finance Commission

The Second Finance Commission was set up in June **1956**.

Important recommendations of this commission:

- The **share of the states in the net proceeds of income tax** should be increased to **60 percent**.
- The actual **distribution** of shares assigned to the states should be **on the basis of population**. Thus, 90 percent of the amount of the divisible pool should be distributed

on the basis of population and only 10 percent on the criterion of sources of collection.

- The number of excise duties to be shared by the Union with the states is increased from 3 to 8, but the shares of the states in these duties are reduced from 40 percent to 25 percent. Even then, there was an increase in the absolute amount of revenue accruing to the states.
- Unlike the First Finance Commission, the Second Finance Commission recommended unconditional grants.
- On the whole, the distribution made by the Second Commission was fair and just.

Third Finance Commission

The Third Finance Commission was set up in December **1960**.

Important recommendations of this commission:

- Of the **net proceeds of income tax**, **66 $^2/_3$ percent** should be distributed **among the states**.
- The distribution of the states' share should be to the extent of 80 percent on the basis of population and 20 percent on the basis of the collection.
- The number of excisable commodities in the divisible pool of proceeds is raised from 8 to 35. However, the percentage of states' shares is reduced from 25 to 20.
- In order to remove the wide disparity in the development of the different regions, Special Purpose Grants for the improvement of communication should be given to the backward states.
- Grants-in-aid should be given for meeting the planned revenue expenditure of the states.
- It was however felt that in view of the rapid increase in the expenditures of state governments the commission did not properly adjust their requirements. Nevertheless, the commission was more generous and quite fair.

Fourth Finance Commission

The Fourth Finance Commission was constituted by the President in **1964**.

Important recommendations of this commission:

- Of the net proceeds of income tax, **75 percent** should be **distributed among the states**.
- For the Union Territories, 2.5 percent of the net proceeds of the income tax should be allocated.
- The excise duties on all commodities should be shared by the Union with the states. The share of the individual states should be determined on the basis of 80% on population and 20% on relative economic backwardness.
- Liberal **grants-in-aid** of Rs. 140 crores per annum (as against Rs. 64 crores in the Third Finance Commission) should be made to the state governments.
- A competent body should be formed to study in detail the entire problem of indebtedness of states and allied matters.
- **The Planning Commission should be made a statutory body** independent of the government and the relative scope and the function of the Finance Commission and the Planning Commission should be clearly defined by amending the Constitution.
- The Government of India has accepted the recommendations of the Commission with some modifications.

Fifth Finance Commission

The Fifth Finance Commission was appointed in February 1968 under **Article 280** of the Indian Constitution. Shri Mahavir Tyagi was its chairman. The financial report of the Commission was submitted on 31st July 1969.

Important recommendations of this commission:

- Of the net proceeds from **income tax, 75 percent** should be **distributed among the states**. But 90 percent is to be distributed on the basis of population and the rest on the basis of the collection. It thus revived the scheme suggested by the Second Finance Commission.
- The states' share in the Union excise should be continued at 20 percent of the actual collection. The criterion of distribution should be 80 percent on the basis of population and 20 percent on the basis of social and economic backwardness.
- In considering the question of grants, emphasis should be shifted from budgetary needs to the broad fiscal needs of the state.
- A **tax on newspaper advertisements** should be imposed.
- There should be resource mobilization in the agricultural sector through the imposition of agricultural income tax.
- The state should **not** indulge in **deficit financing**.
- Balanced budgets and expenditure control should be the basis of fiscal policy.
- The Centre should urge the states to clear their overdrafts and achieve **fiscal discipline**.
- In this way, the Fifth Finance Commission tried to make keen efforts to solve the problem of allocation of financial resources between the center and the states.

But, it could not make an appreciable headway because:

- The role of the Finance Commission vis-a-vis the Planning Commission was not clearly defined;
- The Finance Commission could not pay due attention and devote sufficient time to the issue of the use of Centre- state transfer of resources in an optimum manner.
- Moreover, the commission assigned less importance to grants vis- a-vis devolution of taxes.
- While rewarding backwardness, the Commission overlooked the obstacles in the way of progress and improvement of advanced regions.
- It has unduly shifted large resources from the more developed states to the less developed ones.

Sixth Finance Commission

On 28th June **1972**, the Sixth Finance Commission was appointed.

Apart from the usual terms of reference regarding the distribution and allocation of tax proceeds and grants-in-aid, it had the following additional terms of reference:

1. To assess the **non-plan capital gap** of the various states for the period 1974-79.
2. To review the **policy and arrangement relating to the financing of relief expenditure** by the states.
3. To examine the possibility of establishing a **national fund for financing relief expenditure**.
4. To review the indebtedness of the state governments to the Centre, and suggest a suitable **debt relief scheme**.

By the end of 1973, the commission submitted its report. Its recommendations have been fully accepted by the government.

Important recommendations of this commission:

- The **share of states** in the divisible pool of revenue from income tax should be revised to 80 percent. (The Fifth Finance Commission had suggested 75 percent).
- While allocating the share of each state in this pool of income tax proceeds, 90 per should be distributed on the basis of population and 10 percent on the basis of the collection. It, thus, retained the scheme as suggested by the Fifth Commission.
- Seven rich states — Maharashtra, Gujarat, Haryana, Punjab, M.P., Karnataka, and Tamil Nadu — were not recommended for grants-in-aid by the Commission.
- In its recommendations, the Commission had adopted fair play and tried to reduce the regional imbalances in state finance to some extent.
- Further, the commission in its report also chalked out the norms for improving the standard of administration and social services,
- The commission estimated that the aggregate indebtedness of the states to the Centre will be to the tune of Rs. 8,400 crores by March 1974. It, thus, suggested that the repayment process should be consolidated and spread out over 15 years to 30 years.
- The Commission, however, did not favor the establishment of the national funds for financing the relief outlays. It suggested that instead of providing an ad hoc relief fund, provision must be made on a wide scale for the development of drought and flood-prone areas under the plan scheme.
- Compared to the previous commission, the Sixth Commission appeared to be more fair and just, though it has been criticized for having discouraged the states to be self-reliant, by enhancing the transfer of resources from the Centre to the states.

The Seventh Finance Commission

The Seventh Finance Commission was appointed in **1977**, under the chairmanship of **Shri J.M. Shelat**, with the following terms of reference:

1. To consider the requirements of resources for upgrading the administration in the non-developmental sectors in the backward states on par with the levels of advanced states.

2. To ensure a reasonable return on investments in capital projects such as irrigation and power works, transport undertakings, industrial and business enterprises.

Important recommendations of this commission:

- It coincided with the states' demand for a larger share, raising it from 10 percent to 15 percent of the proceeds of the non-sharable surcharge on the income- tax.
- The Commission states that the surcharge should be treated as additional income tax which should be sharable along with income-tax revenue.
- The Commission also held that population is the indicator of the needs of a state; hence, for inter-state distribution of the states' share, the 90:10 ratio should be retained.
- The Commission also subscribed to the states' view that the **corporation tax should be distributed in the same fashion as the income tax**.
- With regard to the distribution of the proceeds from excise duties, the Commission doubled the share of the states from 20 percent to 40 percent. This 40 percent share of the states must have inter-state distribution, by giving equal weightage to four factors, namely, (i) population; (ii) the inverse of the per capita State Domestic Product; (iii) the poverty ratio; and (iv) a revenue equalization formula.
- As regards **grants-in-aid**, the Commission recommended that:

(a) General grants can be given to the states to cover their budgetary deficits,

(b) To upgrade the administration and basic service standards of a state up to a minimum national standard and conditional grants may be given,

(c) For some specific reason of national concern, such as loss of revenue due to implementation of prohibition, special grants may be given.

- Regarding **debt relief**, the commission suggested that:

(i) loans for productive purposes should be repaid over 15 years and unproductive loans are repaid over 30 years;
(ii) There should be consolidation of the small savings loans in perpetuity. Thus, only interest be paid, with no repayment of the principal;
(iii) There should be consolidation of the rest of the central loans into one loan, which is to be recovered over 15 to 30 installments paid yearly;
(iv) Interest rate charged should be around 4.75 to 5 percent.

- The Commission turned down the demand for a permanent Finance Commission, stating that "it would be unhealthy from the point of view of the Commission's function vis-a-vis the state governments." Instead, it suggested instituting an **'expert non-political agency'** as an advisory body that will play the role of a watchdog.

The Eighth Finance Commission

- The Eighth Finance Commission was appointed in 1982 under the chairmanship of Shri Chavan. Its Final Report was placed in **1984**.
- The 8th FC, despite realizing the increasing fiscal needs of the states, did not increase their shares in the divisible pool of income tax. It, however, increased the share of states in excise revenue from 40% to 45%.
- The 8th FC's approach was to reduce the interstate disparities through progressive distribution/allocation of resources. It also favored tax sharing rather than grants as the mode of resource transfer.
- It laid down that grants should reflect the states' efforts in their fiscal/financial management and should not merely be a gap-filling phenomenon.

Ninth Finance Commission

- The Ninth Finance Commission was constituted in June 1987. It was chaired by **Shri Salve**. It submitted the first report in July 1988 and the second report in December **1989**.
- The Commission was asked to adopt a normative approach and look into the desirability of expenditure and also to deal with the problem of revenue deficits.
- The 9th FC suggested that the fiscal needs of the states showed be judged through tax efforts and expenditure economy. Secondly, there should be equalization of the standards of social services provided by the states.
- In short, it recommended grants on the basis of normative gaps rather than fiscal gaps in state finance.

Tenth Finance Commission

- The Tenth Finance Commission was appointed in June 1992 under the chairmanship of Shri K. C. Pant, Its report was submitted in November 1994, covering the period 1995-2000.
- There was no binding on the 10th FC to adopt a **normative approach**. It was, however, to look into the targets for additional resource mobilization by the states, the potential for raising additional tax revenue, and strives for better fiscal management.
- The 10th FC took note of the growing revenue expenditure and deficit on revenue account as well as growing inter-regional disparities in the country's finance both at the Centre and State levels.
- The Commission recommended that the share of State in the divisible pool income-tax revenue should be 77.5% and that of Union Territories should be 0.927%.
- It enhanced the States' share in excise revenue to 47.5% of the net divisible pool.

- Regarding the debt problem of the States' the 10th FC opined that states should make prudent use of borrowed money and loans should not be written off. Incentives for better fiscal management should be provided.
- The commission provided a broader definition to the pool of divisible tax revenue covering income-tax, Corporation Tax, Union excise duties, additional duties on excise on excise, and grants in lieu of tax on railway passenger fares.
- 10th FC laid down that fiscal discipline requires avoiding deficit on revenue account and expenditure control.

Eleventh Finance Commission

- It was appointed in July **1998** with **A. M. Khusro** as the chairman. Its report was submitted in July 2000, covering the period 2000-2005.
- **Its term of reference is confined to:**

i. Distribution of tax proceeds between the Centre and the states.
ii. Grants-in-aid principles.
iii. Measures towards consolidation of funds.

- 11th FC recommended that the share of states in the net proceeds of all central taxes, and duties be fixed at 28 percent. Besides, 1.5 percent of all taxed revenue be allocated to the states separately.
- This means the states' share is totally up to 29.5 percent.

Twelfth Finance Commission

- The 12th FC was appointed in November 2002 under the chairmanship of **C. Rangarajan**. Its report was submitted in 2004, covering the period 2005-2010.
- **Its specific terms of references pertained to:**

i. Balancing the revenue accounts of the Centre as well as states with a view to reduce fiscal deficits.
ii. Taxation efforts.
iii. Commercial viability of various projects undertaken by the states.

- The 12th FC suggested increasing the share of the states to 30.5 percent in the pool of central taxes.
- The commission claimed to have followed the principles of equity and fiscal efficiency in assigning the criteria and relative weight for determining the interest rate of states. The commission recommended the continuation of the scheme of calamity relief fund established at the suggestion of the 11th FC.
- The Commission blamed the Centre's fiscal policy for the increasing indebtedness of the states over the years.
- The commission observed that the **Fiscal Reform Facility** introduced by the Centre failed to play any significant role in the improvement of the states' finance.
- The fiscal federalism in India should evolve a flexible and efficient and equitable system of resource transfers from the Centre to states.
- The profligacy of pending should be stopped. Prudency and fiscal discipline should govern the mode of public finance in India at all levels of the government.

Thirteenth Finance Commission

The Thirteenth Finance Commission has submitted its report to President in December 2009. The report was submitted by the Chairman of Commission Dr.Vijay Kelkar.

The Thirteenth Finance Commission has submitted its report to President in December 2009. The main task of the Finance Commission is to make recommendations on sharing tax revenues between centre and states.

Important recommendations of this commission:

- The commission has made recommendations for the fiscal consolidation for a five year period from 2010 to 2015.
- The report additionally calls for climate linked fiscal incentive to states, calls for enhanced royalty for mineral resources of states and suggests framework for output at the state level.
- Broadly speaking, the report maintains the centre-state share of net tax proceeds.
- The commission has asked the government to stop changing tax and duty rates annually and switch to a three-year rolling budget.
- A rolling budget would mean tax and duty rates unchanged for a longer period, and thus help companies and individuals to plan their financial strategies in advance.
- The report has also assessed the impact of the proposed goods and services tax (GST) on trade.

Fourteenth Finance commission

- The FFC has radically enhanced the share of the states in the central divisible pool from the current 32 percent to 42 per cent which is the biggest ever increase in vertical tax devolution.
- The last two Finance Commissions viz. Twelfth (period 2005-10) and Thirteenth (period 2010-15) had recommended a state share of 30.5 per cent (increase of 1 percent) and 32 per cent (increase of 1.5 percent), respectively in the central divisible pool.
- The FFC has also proposed a new horizontal formula for the distribution of the states' share in divisible pool among the states. It has incorporated two new variables: 2011 population and forest cover; and excluded the fiscal discipline variable.
- The FFC has not made any recommendation concerning sector specific-grants unlike the Thirteenth Finance Commission.
- Grants: Should be distributed to states for local bodies on the basis of the 2011 population data; the grants be divided into two broad categories on the basis of rural and urban population — constituting gram panchayats, and constituting municipal bodies respectively.
- Types of grants: A basic grant and a performance grant — the ratio of basic to performance grant be 90:10, with respect to panchayats; and 80:20 in the case of municipalities.
- Delinking of schemes: Eight centrally sponsored schemes (CSS) will be delinked from support from the Centre; various CSS will now see a change in sharing pattern, with states sharing a higher fiscal responsibility.

Fifteenth Finance commission

The final report with recommendations for the 2021-26 period was tabled in Parliament on February 1, 2021.

Important recommendations of this commission:

Recommendation of the 15th Finance Commission of India that was tabled on 1st February 2021 are:

1. **Maintaining vertical devolution at 41%:**
    - It has recommended maintaining the vertical devolution at 41% the same as in the report for 2020-21.
    - It would help in maintaining predictability and stabilizing the resources, especially during COVID times.
    - It is at the same level of 42% of the divisible pool as recommended by 14th FC. However, it has made the required adjustment of about 1% due to the

changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir.

2. **On GST:**
   - GST accounts for 35% of the gross tax revenue of the Union.
   - GST accounts for around 44% of own tax revenue of the States.
   - **On Gross Tax Revenue:**
     - There is a drop of 1.7% points in the gross tax revenue after excluding GST cess collection in comparison to 2016-17 figures.
     - The impact of this drop could be seen in the tax devolution to states.
   - **Gross Tax Revenue Assessment 2021-26:**
     - It is expected to be 135.2 lakh crore, out of which the divisible pool is estimated to be 103 lakh crore.
3. **On Horizontal Devolution:**
   - The criteria and the weights assigned for horizontal devolution are:
     - *Population: 15%*
     - *Area: 15%*
     - *Forest & Ecology: 10%*
     - *Income Distance: 45%*
     - *Tax and Fiscal Efforts: 2.5%*
     - *Demographic Performace: 12.5%*
   - The commission has also re-introduced the tax effort criterion to reward fiscal performance.
4. **On Revenue Deficit Grants (RDG):**
   - Revenue deficit grants emanate from the requirement to meet the fiscal needs of the States on their revenue accounts that remain to be met, even after considering their own tax and non-tax resources and tax devolution to them.
   - Revenue Deficit is defined as the difference between revenue or current expenditure and revenue receipts, which includes tax and non-tax.
   - It has recommended post-devolution revenue deficit grants amounting to about Rs. 2.94 lakh crores over the five-year period ending FY26.
   - The number of states qualifying for the revenue deficit grants decreases from 17 in FY22, the first year of the award period to 6 in FY26, the last year.
5. **Sector-specific grants:**
   - Sector-specific grants of Rs 1.3 lakh crore will be given to states for eight sectors:
     i. health,
     ii. school education,
     iii. higher education,
     iv. implementation of agricultural reforms,
     v. maintenance of PMGSY roads,
     vi. judiciary,
     vii. statistics, and
     viii. aspiration districts and blocks. A portion of these grants will be performance-linked.

State-specific grants:

The Commission recommended state-specific grants of Rs 49,599 crore. These will be given in the areas of:

. social needs,
i. administrative governance and infrastructure,

ii. water and sanitation,
iii. preservation of culture and historical monuments,
iv. high-cost physical infrastructure, and
v. tourism.

The Commission recommended a high-level committee at the state-level to review and monitor utilisation of state-specific and sector-specific grand.

Fiscal Space for Centre:

Total 15th Finance Commission transfers (devolution + grants) constitutes about 34% of estimated Gross Revenue Receipts to the Union, leaving adequate fiscal space to meet its resource requirements and spending obligations on national development priorities.

Grants to local bodies (other than health grants) will be distributed among states based on population and area, **with 90% and 10% weightage, respectively.**

Criticism:

Reliance on Solely 2011 Population Figures

- Sole reliance on the 2011 population figures would discriminate against states such as Kerala that have a better record of controlling population growth and reducing their share in the national population.
- It has added to the 2011 population figures a demographic criterion that favours states that have reduced fertility rates to lower levels.
- In the 14th FC's recommendations, the 1971 population was given a 17.5% weight and the 2011 population a 10% weight when arriving at horizontal devolution figures.
- *The 15th FC has dropped the 1971 consensus and given the 2011 population consensus a 10% weight and a fertility linked criterion a 12.5% weight.*

Reduction in performance-based grants

- Performance-Based Grants (PBGs) link performance in pre-determined areas with access to and size of funding, applying clear and transparent allocation formulas.
- The performance-based grants which were introduced by the Thirteenth Finance Commission earmarked 35% of local grants specifying six conditions for panchayats and nine for urban local governments and covered a wide range of reforms: from the establishment of an independent ombudsman to notifying standards for service sectors such as drinking water and solid waste management.
- *The Fifteenth Finance Commission has reduced the performance-based grant to just ₹8,000 crore- and that too for building new cities,* ***leaving out the Panchayati Raj Institutions (PRIs) altogether.***
- The performance-linked grants were introduced by the Thirteenth Finance Commission and covered a wide range of reforms.
- The transformative potential in designing performance-linked conditionalities for improving the quality of decentralised governance in the context of different states is missed.

Missed opportunity to ensure minimum public services

- The Fifteenth Finance Commission failed to carry policy choices forward systematically.
- Articles 243G, 243W and 243ZD read along with the functional decentralisation of basic services like drinking water, public health care, etc., mandated in the Eleventh and Twelfth schedules demand better public services and delivery of 'economic development and social justice at the local level.

- A good opportunity to ensure comparable minimum public services to every citizen irrespective of her choice of residential location has not been taken forward in an integrated manner.

Missing equalisation principle for the local government

- The Fifteenth Finance Commission claims that it seeks to achieve the "desirable objective of evenly balancing the union and the states".
- It is not clear why there is no recognition of the third tier in this balancing act.
- It may be relevant to recall that the Alma-Ata declaration of the World Health Organization (1978) outlined an integrated, local government-centric approach with a simultaneous focus on access to water, sanitation, shelter and the like.
- There is no integrated approach in the recommendations of the Fifteenth Finance Commission about the local governments (in contrast to the recommendations of the Thirteenth Finance Commission).
- Although the Fifteenth Finance Commission stresses the need to implement the equalisation principle, it is virtually silent when it comes to the local governments.

Equity and efficiency sidelined

- The Fifteenth Finance Commission employed population (2011 Census) with 90% and area 10% weightage for determining the distribution of grant to States for local governments.
- The same criteria were followed by the Fourteenth Finance Commission.
- While this ensures continuity, equity and efficiency criteria are sidelined.
- Abandoning tax effort criterion incentivises dependency, inefficiency and non-accountability.

16.4 SUMMARY

To sum up, the administrative relationship between the center and the states in India has evolved during the course of colonial rule. After Independence the Constitution of India provided for a system of inter-governmental relationship both for normal times and emergencies. In normal times, the federal polity was expected to function on the principle of dual government. The history of highly centralized government in the past, the influence of the Government of India Act 1935 and the concern of our founding fathers about national stability, peace and harmony led to the acceptance of a constitutional arrangement of distribution of powers that deliberately tilted the scale in favor of the union.

16.5 KEY WORDS

1. **Federalism** :The method of dividing power so that general and regional governments are each within a sphere co-ordinate and independent." He called the Indian Constitution as quasi-federal in nature.

2. **Executive Powers** : The centre's power encompasses the entire nation when it comes to matters over which it has exclusive jurisdiction (union list), as well as when it exercises any rights, jurisdiction, or authority granted to it by a treaty or agreement.

3. **Finance Commissions** (FCs) play a crucial **role** in shaping the **fiscal federalism** and development trajectory of India. They make **recommendations on how to distribute the financial resources** between the Union and the states, as well as among the states, for a period of five years.

16.6 SELF ASSESSMENT QUESTIONS

Essay type questions:

1. Analyze the Centre and State relations in Financial matters.
2. Critically examine the various issues relating to the Centre and State relations
3. Evaluate the major areas of tension between Centre and State relations
4. Briefly explain the major recommendations of various finance commissions

Short Answer questions :

1. Centre and State relations in Legislative matters
2. Centre and State relations Administrative matters
3. Recommendations on Centre and State relations
4. Functions of Finance Commission
5. Recommendations of Fifteenth Finance Commission.

14.5 SUGGESTED READINGS:

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4. Mishra & Puri, "Indian Economy", Himalaya Publishing House, New Delhi, 2021
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LESSON– 17
AP ECONOMY AFTER BIFURCATION

Aims and Objective:

After completing the lesson the student will have knowledge on the following :

- ✓ The important points in the A.P. Reorganization Act, 2014
- ✓ Demographic features of Andhra Pradesh and Geographical features of Andhra Pradesh
- ✓ The basic features of A.P. Economy
- ✓ The Challenges of development in newly formed Andhra Pradesh
- ✓ Global Investors Summit, 2023

Structure

17.1 Introduction

17.2 A.P. Reorganization Act, 2014

17.2.1 Hyderabad to be common capital for States of Telangana and Andhra Pradesh

17.2.2 Governor of existing State of Andhra Pradesh to be common Governor

17.2.3 Reports relating to accounts of Andhra Pradesh State

17.2.4 Distribution of revenue

17.2.5 Public Debt

17.2.6 Special Development Packages

17.3 Geographical and Demographic Features

17.4 Basic features of Andhra Pradesh after Bifurcation

17.5 Challenges

17.6 Summary

17.6 Key Words

17.7 Self Assessment Questions

17.8 Suggested Readings

17.1 INTRODUCTION

Economy of Andhra Pradesh is an example of a type of economy which establish effective balances between agriculture, industry, and services. Agriculture is the backbone of the state's economy, with Andhra Pradesh often dubbed the "Rice Bowl of India" for its significant rice production. Additionally, it produces a variety of other crops including pulses, oilseeds, cotton, tobacco, and chili pepper. Its robust fisheries sector also contributes sizably to the state's GDP. Andhra Pradesh has a strong setup of public facilities, industries, and good internet connectivity. The state also has good electricity supply, airports, IT facilities, and ports. The state government has prioritized infrastructure development to facilitate economic growth. Significant investments have been made in areas such as transport, utilities, and social infrastructure. The state has been active in creating special policies for different sectors of the economy. Building special industrial areas and providing needed facilities, like biotech parks, textile parks, and hardware parks, has been a main way for the state to attract businesses in these sectors.

17.2 A.P. REORGANIZATION ACT, 2014

The Andhra Pradesh Reorganisation Act of 2014, commonly known as the Telangana Act, is an Act of Indian Parliament that split the state of Andhra Pradesh into Telangana and the residuary Andhra Pradesh state, as an outcome of the Telangana movement. According to this Act, on and from the appointed day, there shall be formed a new State to be known as the State of Telangana comprising the following territories of the existing State of Andhra Pradesh, namely:—Adilabad, Karimnagar, Medak, Nizamabad, Warangal, Ranga Reddy, Nalgonda, Mahbubnagar, 1.Khammam (but excluding the Mandals of Kukunoor, Velairpadu and Bhurgampadu but not including its revenue villages of Pinapaka, Morampalli Banzar, Bhurgampad, Nagineniprolu, Krishnasagar, Tekula, Sarapaka, Iravendi, Mothepattinagar, Uppusaka, Sompalli and Nakripeta under the Palvancha Revenue Division, and the Mandals of Chintoor, Kunavaram, Vararamachandrapuram and Bhadrachalam but not including the revenue village of Bhadrachalam under the Bhadrachalam Revenue Division)] and Hyderabad districts, and thereupon the said territories shall cease to form part of the existing State of Andhra Pradesh. State of Andhra Pradesh and territorial divisions thereof.—On and from the appointed day, the State of Andhra Pradesh shall comprise the territories of the existing State of Andhra Pradesh other than those specified in section

17.2.1 Hyderabad to be common capital for States of Telangana and Andhra Pradesh:

On and from the appointed day, Hyderabad in the existing State of Andhra Pradesh, shall be the common capital of the State of Telangana and the State of Andhra Pradesh for such period not exceeding ten years. After expiry of the period referred to in sub-section (1), Hyderabad shall be the capital of the State of Telangana and there shall be a new capital for the State of Andhra Pradesh. Explanation.—In this Part, the common capital includes the existing area notified as the Greater Hyderabad Municipal Corporation under the Hyderabad Municipal Corporation Act, 1955 (Hyderabad Act No. 2 of 1956). Expert Committee for setting up of a capital for Andhra Pradesh.—The Central Government shall constitute an expert committee to study various alternatives regarding the new capital for the successor State of Andhra Pradesh and make appropriate recommendations in a period not exceeding six months from the date of enactment of the Andhra Pradesh Reorganisation Act, 2014.

17.2.2 Governor of existing State of Andhra Pradesh to be common Governor:

On and from the appointed day, the Governor of the existing State of Andhra Pradesh shall be the Governor for both the successor States of Andhra Pradesh and Telangana for such period as may be determined by the President. Responsibility of Governor to protect residents of common capital of Hyderabad.—(1) On and from the appointed day, for the purposes of administration of the common capital area, the Governor shall have special responsibility for the security of life, liberty and property of all those who reside in such area.(2) In particular, the responsibility of the Governor shall extend to matters such as law and order, internal security and security of vital installations, and management and allocation of Government buildings in the common capital area. (3) In discharge of the functions, the Governor shall, after consulting the Council of Ministers of the State of Telangana, exercise his individual judgment as to the action to be taken: Provided that if any question arises whether any matter is or is not a matter as respects which the Governor is under this sub-section required to act in the exercise of his individual judgment, the decision of the Governor in his discretion shall be final, and the validity of anything done by the Governor shall not be called in question on the ground that he ought or ought not to have acted in the exercise of his individual judgment.

17.2.3 Reports relating to accounts of Andhra Pradesh State

The reports of the Comptroller and Auditor-General of India referred to in clause (2) of article 151 relating to the accounts of the existing State of Andhra Pradesh in respect of any period prior to the appointed day shall be submitted to the Governor of each of the successor States of Andhra Pradesh and Telangana who shall cause them to be laid before the Legislature of that State. The President may by order—(a) declare any expenditure incurred out of the Consolidated Fund of Andhra Pradesh on any service in respect of any period prior to the appointed day during the financial year or in respect of any earlier financial year in excess of the amount granted for that service and for that year as disclosed in the reports referred to in sub-section (1) to have been duly authorised; and (b) provide for any action to be taken on any matter arising out of the said reports.

17.2.4 Distribution of revenue

(1) The award made by the Thirteenth Finance Commission to the existing State of Andhra Pradesh shall be apportioned between the successor States by the Central Government on the basis of population ratio and other parameter. Provided that on the appointed day, the President shall make a reference to the Fourteenth Finance Commission to take into account the resources available to the successor States and make separate awards for each of the successor States.

(2) The Central Government may, having regard to the resources available to the successor State of Andhra Pradesh, make appropriate grants and also ensure that adequate benefits and incentives in the form of special development package are given to the backward areas of that State.

(3) The Central Government shall, while considering the special development package for the successor State of Andhra Pradesh, provide adequate incentives, in particular for Rayalaseema and north coastal regions of that State.

17.2.5 Public Debt

(1) All liabilities on account of Public Debt and Public Account of the existing State of Andhra Pradesh outstanding immediately before the appointed day shall be apportioned on the basis of population ratio of the successor States unless a different mode of apportionment is provided under the provisions of this Act.

(2) The individual items of liabilities to be allocated to the successor States and the amount of contribution required to be made by one successor State to another shall be determined the Central Government on the advice of the Comptroller and Auditor General of India. Provided that till such orders are issued, the liabilities on account of Public Debt and Public Account of the existing State of Andhra Pradesh shall continue to be the liabilities of the successor State of Andhra Pradesh.

(3) The liability on account of loan raised from any source and re-lent by the existing State of Andhra Pradesh to such entities and whose area of operation is confined to either of the successor States shall devolve on the respective States.

(4) The public debt of the existing State of Andhra Pradesh attributable to loan taken from any source for the express purpose of re-lending the same to a specific institution and outstanding immediately before the appointed day shall,(a) if re-lent to any local body, body corporate or other institution in any local area, be the debt of the State in which the local area is included on the appointed day (b) if re-lent to any other corporation or institution which becomes an inter State corporation or institution on the appointed day, be divided between the States of Andhra Pradesh and Telangana in the same proportion in which the assets of such body corporate or institution are divided under the provisions of Part VII.

(5) Where a sinking fund or a depreciation fund is maintained by the existing State of Andhra Pradesh for repayment of any loan raised by it, the securities held in respect of investments made from that fund shall be divided between the successor States of Andhra Pradesh and Telangana in the same proportion in which the total public debt is divided between the two States under this section i.e. on the basis of population ratio of the successor States unless a different mode of appointment is provided under the provisions of this Act.

(6) In this section, the expression “Government security” means a security created and issued by a State Government for the purpose of raising a public loan and having any of the forms specified in, or prescribed under, clause (2) of section 2 of the Public Debt Act, 1944.

17.2.6 Special Development Packages :

- ❖ The Central Government may make appropriate grants, provide adequate benefits and incentives in the form of special development package for the successor State of Andhra Pradesh
- ❖ Rayalaseema and north coastal regions are specifically identified for the development package
- ❖ Appropriate fiscal measures are proposed such as tax incentives to promote industrialization and economic growth in both States along the lines extended to some other States
- ❖ The measures to ensure expansion of physical and social infrastructure Geographical and demographical Features of the State A special category status is announced by the Prime Minster for the successor State of Andhra Pradesh for a period of five years
- ❖ The above package will be on the lines of K-B-K (Koraput-Bolangir-Kalahandi) special plan in Odisha and Bundelkahand special package in MP / UP
- ❖ Planning department to study the packages and prepare proposals accordingly in the next two weeks

17.3 GEOGRAPHICAL AND DEMOGRAPHIC FEATURES

With 26 districts and a geographical area of 1,62,970 SqKm, Andhra Pradesh is the 8th largest state in the country. Located in the tropical region, the state has the 2nd longest coastline in the country with a length of 974 km. In terms of population, according to the 2011 census, Andhra Pradesh is the tenth largest state in the country with 4.09% of the total population of the country.

1961-71 18.88% 1981-91 21.13% increased. Subsequently a significant decline in the population growth rate was observed and the decline was more prominent at 9.21% in 2001-11, which was lower than the all- India growth rate of 17.70 percent. According to the 2011 census, Andhra Pradesh has a population density of 304 persons per square kilometer, while the 2011 all- India population density is 382 persons per square kilometer. The sex ratio in the state has increased from 983 in 2001 to 997 in 2011. 943 more than India as a whole. Krishna district has the highest density of 518, while YSR and Prakasam districts have the lowest population density of less than 200.

The literacy rate of the state was 67.35 percent in 2011, which was 62.07 percent in 2001. The state's literacy rate is below the All India literacy rate of 72.98 percent. Literacy in Andhra Pradesh has increased by over 37 percentage points from 29.94 percent in 1981 to 67.35 percent in 2011. Female literacy rate increased from 52.72 percent in 2001 to 59.96 percent in 2011.

Urbanization is considered an important factor for realizing growth. The percentage of urban population in the total population of the state was 29.47 percent in 2011 as compared to 24.13 percent in 2001. Among all the districts, Visakhapatnam has the highest urban population with 47.45 percent, followed by Krishna district with 40.81 percent urban population. Srikakulam with 16.16 percent urban population and Prakasam districts with 19.56 percent are the least urbanized districts.

The basic types of soils are sand, silt, and clay, and most soils are made up of a combination of these three. The texture of the soil, how it looks and feels, depends on the amount of each in the particular soil. There are different types of soils and soil structure is mainly due to major factors like climate, altitude and rock composition etc will be affected. The uneven distribution of rainfall in the country and high temperatures give special roles to the soils.

Land use classification reveals that 37.05% net area (60.38 lakh hectares), 22.63% forest (36.88 lakh hectares), 9.20% current fallow land (15.00 lakh hectares) and 12.78% under land in the geographical areas of the state. Non- agricultural uses (20.82 lakh ha), 8.19% is barren and uncultivable land (13.35 lakh ha) and remaining 7.96% is other fallow land, permanent pasture and other grassland (12.96 lakh ha) and under land. 2.19% (3.58 lakh hectares) under various tree crops and plantations is not included in the net area sown.

17.4 BASIC FEATURES OF ANDHRA PRADESH AFTER BIFURCATION

1. Gross State Domestic Product (GSDP):

The state's economy is expected to bounce back to pre- Covid levels, which the government is committed to providing exclusively. Focusing on all important sub- sectors has forced them to give special effort to increase economic growth. Nominal GSDP or GSDP at current prices for the year 2022-23 is 5.13.17,728 5 0 . 5. 11,33,837 5 0. for the year 2021-22 showing a growth of 16.22% in 2022-23. GSDP at constant (2011-12) prices is estimated at Rs.7,54,338 crore for the year 2022-23. As against Rs.7,04,889 crore for the year 2021-22. 2022-23 growth is estimated at 7.02%. But the growth rate for 2021-22 is 11.23% at constant prices. Sectoral growth rates of Andhra Pradesh GSDP to 2022-23 at constant (2011-12) prices Agriculture: 4.54%, Industry: 5.66% ~ 2 : 10.05%. At current prices, the per capita income of Andhra Pradesh in 2022-23 is estimated to be Rs.2,19,518. 26,931 with a growth rate of Rs.1,92,587 in 2021-22. 13.98%.

2. Agricultural Development in Andhra Pradesh:

Andhra Pradesh is a state that is famous as Annapurna of India and Granary of South. Agricultural scientists and technical experts say that there is a need for diversification in the agricultural sector. But farmers have been a step ahead and have been changing crops in many different ways for the last 10, 15 years. In 1956, 73 percent of the land in our state was under food crops, but by 1998, it had reduced to 53 percent. This crop rotation was mostly done in Rayalaseema which was very backward. Cultivation of food crops here is limited to 24 percent and the remaining 76 percent of the land is cultivated for non- food crops. Farmers are trying to increase productivity and increase incomes. There has been a great change in small and small farmers who are 75 percent. As a result, traditional crops are reduced and high yielding varieties and hybrid seeds are being used. They are not only changing the crops, thinking about which crop will give more income, which technology will give more income... they are choosing the way to get more income.

The Indian government is giving top priority to the agriculture sector. Government of India wants us to produce foodgrains, pulses and oilseeds according to our country's needs. Prime Minister Dr. According to the decision of the National Development Council meeting held in Delhi on May 29, 2007 under the chairmanship of Manmohan Singh, it has been decided that the Center should cooperate in increasing the production of crops in the agriculturally dominant states. On July 31, 2007 in Hyderabad, Prime Minister Dr. In a review meeting in the presence of Manmohan Singh, the Prime Minister announced the launch of the National Food Security Mission under the name "Andhra Pradesh Resolution".

In the Eleventh Five Year Plan (2007-12), the Central Government has decided to give top priority to the agriculture sector. In addition to setting up a National 'Food Security Mission'; Additional central assistance to increase production of rice, wheat and pulses has been focused on these two aspects. To raise the standard of living of the rural people and increase the production of food grains significantly. National Food Security Mission is the main objective. It has been proposed to include 11 districts of Andhra Pradesh in the 'National Food Security - Paridhanyam' scheme and districts in the National Food Security - Pulses scheme.

3. Poverty:

According to the latest available estimates of the Planning Commission released in July 2013 for the year 2011-12, rural areas in the united Andhra Pradesh And the poverty ratios in urban areas are 10.96 % and 5.81% respectively and the combined ratio stands at 9.20%. The figures for all India during the same period are 25.70%, 13.70% in rural and urban areas and 0 21.92%. According to the baseline report on National Multidimensional Poverty Index released by NITI Aayog on 24th November, 2021, AP's Multidimensional Poverty Index (MPI) score is 0.053. APS 6 (43.23% 30 25 55 9 12.31%. MPI uses information from 12 indicators, which are divided into 3 equally weighted measures – health (3 indicators), education (2 indicators) and living standards (7 indicators). AP state performed well in some indicators like housing, electricity, maternal health, cooking fuel, school attendance and bank accounts. But indicators like drinking water and schooling need some special attention. sanitation, child- adolescent mortality and nutrition,

4. Employment and Unemployment:

According to the Periodic Labor Force Survey (PLFS), 2020-21 AP state population accounted for around 48.4 % (all age groups) in the labor force out of a total of 41.6% of India. In AP, the labor force participation rate in rural areas is 51.6%. This is better compared to 41.9% in urban areas. The low labor force in the state is mainly due to the low labor force participation rate for women, which is only 36.1%.

The Periodic Labor Force Survey revealed clear gender differences in the Work Participation Rates (WPR) at the Andhra Pradesh and All India level. WPR among youth (15-29 years) is low at Andhra Pradesh and All India level. And this is generally true for both rural and urban areas but is higher for urban women (17.9% compared to 32.9% in rural areas). Relatively high work participation of women in rural areas may be due to livelihood and employment generating activities like MGNREGS. A relief in this regard for the state of AP is that the Work Force Participation (WPR) for women of all age groups (40.8%) is higher than in rural areas. country (27.1%). Unemployment rate is slightly lower in AP (4.1%) compared to India (4.2%). Unemployment is highest among people between the ages of 15-29 and as the age increases, the problem stops.

5. Public Finance:

The revenue composition of the state in the financial year 2021-22 is Rs.71,018 crore from own tax sources, Rs.5,018 crore from own non- tax sources and Rs. 78,200 crores as central transfers. As per the revised estimates for the financial year 2022-23, the total own tax revenue is Rs.84,389 crore. According to the revised estimate for the financial year 2022-23, the state's own non- tax revenue will be Rs. 6,511 crore and the flow of resources from the Center was Rs. As per the revised estimate for the financial year 2022-23 Rs. 89,835 crores. Total State Expenditure (excluding Public Debt Repayments) from Rs.1,77,674 crore in FY 2021-22 to Rs.2,24,219 crore in FY 2022-23 as per revised estimate, revenue expenditure from Rs.1,59,163 crore in FY 2021-22 2,05,556 crores as per the revised estimate for the financial year 2022-23.

The total debt of the state by the end of the financial year 2021-22 will increase to Rs.3,78,087 crores and will be Rs.4,26,234 crores by the end of the financial year 2022-23 (as per revised estimate), and the revenue deficit of Andhra Pradesh in the financial year 2021-22 will be Rs. (-) 8611 Crores in FY 2022-23 as per revised estimate to Rs. (-) 250115), 9 (綵) . (-) 29108 (2021-22) 5 (-) 47717 5 (2023-23) 00.

6. Public Distribution:

The Government has mandated Sartex to supply quality rice and other essential commodities at doorsteps of BPL Hau elderly through 9260 Mobile Dispensing Units to provide sustainable livelihood to Scheduled Tribes, Scheduled Castes, Backward Classes, Minorities and Economically Backward Classes youth of the society.

At present 29,794 fair price shops are functioning in the state. On an average, 488 cards/ households are served by each affordable stores. There is one shop for every 1423 people in the state. At present, under the National Food Security Act, 2013, 2.32 lakh metric tonnes of rice (2.00 lakh metric tonnes for priority households, Antyodaya Metric Tons, Anthdaya 50.32 lakh metric tonnes) is allocated to the families under the Anna Yojana at subsidized prices of Rs.1/- per kg. It will meet the needs of 1.46 crore families below the poverty line.

7. Inflation:

The Consumer Price Indices for Industrial Workers increased by 7.39% at the State level and 6.30% at the All India level during April, 2022 to October, 2022. The Consumer Price Index numbers for agricultural labor increased by 6.00% in the state (Combined AP) and 6.86% in India during April, 2022 to November, 2022 as compared to the corresponding period of the previous year. The Wholesale Price Index of All Commodities (2011-12) declined to 152.1 in November, 2022 from 152.3 in April, 2022. For manufactured products, it decreased from 144.7 to 1415. But in the Fuel & Power group it increased to 159.6 from 151.2. The average daily wages of artisans and field workers (male and female) increased during April to October 2022 compared to the corresponding period last year.

8. Rainfall Conditions:

In 2022-23, the state received 583.2 mm of rainfall during the southwest monsoon as against the normal rainfall of 574.8 mm. It was recorded higher by 1.5%. Kakinada, Bapatla, Anantapur and Sri Sathyasai districts recorded heavy rainfall, while the remaining districts of the state recorded normal rainfall. 2022-23 during the Northeast Monsoon season (October to December). 8.7% higher rainfall was recorded. Normal rainfall is 285.5 mm and 310.4 mm during this period. Rainfall is recorded.

9. Agriculture:

The second advance estimates of the region as well as the foodgrains production forecast for the year 2022-23 were compared with the previous year's achievements i.e. 2021-22. The area under food grains was 39.59 lakh hectares in 2022-23 as against 41.34 lakh hectares in 2021-22, a decrease of 4.2%. The total production of food grains in 2022-23 was 169.30 lakh tonnes and 154.85 lakh tonnes in 2021-22 showing a growth of 9.3%. Productivity increases in production despite reduction in area indicates improvement. Good rainfall, adoption of eco- friendly farming methods and government's pro- farmer programs including key services provided by Rythu Bharosa Kendras (RBKs) contributed to this increase in foodgrain production.

Rs.13,500/- per annum to farmer families owning land under YSR Rythu Bharosa Scheme Rs.6,000/- in three installments from Central Government under Pradhan Mantri Kisan. Financial assistance is also being provided to landless tenant farmers & Recognition of Forest Rights (ROFR) cultivators belonging to SC, ST, BC, minority communities. 13,500/-

per family from Andhra Pradesh government budget for 2022-23 to 197 lakh tenants/ 50.92 lakh farmer families including recognition of forest rights cultivators (ROFR) farmers.

AP Govt launched Dr. YSR's ambitious project. Rythu Bharosa Kendras (Dr. YSR RBKS) are a 'one stop shop' with the aim of enhancing farmers' income and livelihood by ensuring availability of certified quality inputs and latest technology and dissemination of crop specific minimum support prices, through which farmers cannot escape from the government. 10778 Dr. YSR has set up RBKS and 154 Hubs to provide all services related to agriculture and allied sectors within the village. Government to construct 10,243 new RBKs as permanent assets at a total cost of Rs 2,232.90 crore Buildings were also granted. The RBK concept will receive high priority at the Asia Pacific Summit in 2022 and the Government of India has recommended the World Bank to replicate the RBK model in Ethiopia to improve farmers' livelihoods and net income levels.

Dr. YSR Polambadi (Farmer Field Schools) is being organized by the government to help farmers take economically viable decisions and reduce the cost of cultivation and thereby increase productivity by adopting environmentally friendly practices. 2022-23 Kharif (till December 31, 2022) 2.55 lakh farmers benefited by conducting training program of 8,509 farm bodies in various crops including sorghum, bajra, ragi, pulses and oilseeds and major crops like paddy, cotton, maize. 15.61 lakh people in June 2022 under YSR Free Crop Insurance Scheme. Direct release of Rs 2,97,782 crore claim amount for 2021-22 to Aadhaar linked bank accounts of farmers. Agri inputs like seed, fertilizers and pesticides to ensure availability of quality agricultural inputs at RBK level to farmers in their villages Dr.YSR Agri Testing Labs established for testing.

A.P. State Cooperative Bank has provided Rs.74,153 crore (Kharif Rs.59,793 crore and Rabi Rs.14,360 crore) as production credit (short term loans) to Primary Agricultural Credit Societies (PACS) » District Central Cooperative Banks (DCCB) during the year 2022-23. During Kharif-2022, 5,33,726 quantitative trait loci seeds of various crops were distributed to 10.13 lakh farmers at a subsidy value of Rs.15,780 lakh. So far, 1.50,096 quintals of seeds have been distributed to 1.77 lakh farmers in Rabi 2022-23 at a subsidy value of Rs. 3133 lakhs. 2022-235 13 S Agriculture Technology Management Agency (ATMA) Integrating Farmland Information Center (FIC) staff District Resource Centers have been established for effective utilization of resources and human resources.

Launched "Agri Infrastructure Fund" through grant of license under Aatmanirbar Bharat initiative to fund agri infra projects at farm gate and aggregation points to revitalize agriculture sector. In AP, NABARD has approved a loan of Rs.736.03 crore for 1282 PACS in Phase-1 and 1305 PACS in Phase-1 and the government has sanctioned 10% margin money of Rs.73.60 crore as loan to PACS. On repayment basis, further, NABARD sanctioned loan of Rs.1108.92 crore under Phase II for conversion of PACS at RBKS into multi- purpose facility centres.

The Jagananna Milk Flood Project has been extended to 17 districts in the newly formed districts, reaching 2,52,193 women dairy farmers from 3,108 villages and collecting 1,71,230 liters of milk per day. Now the price paid to farmers is Rs.71.47 to Rs.5.87.565 per litre.

10. Horticulture & Sericulture:

Andhra Pradesh ranks first in the productivity of oil palm, papaya, lemon, cocoa, tomato, coconut and chillies. The area under horticultural crops is 17.95 lakh hectares and the production is 314.76 lakh metric tonnes. Andhra Pradesh ranks first in fruit production in the country. It accounts for 15.6% of the country's total fruit production. The horticulture sector recorded a growth of 10.56% over last year and contributed 52,860 Gross Value Added (GVAS) in 2021- 22 (Agri Entrepreneurs - AE). 22,433 acres additional area came under oil palm. Plantation from other traditional crops as part of crop diversification. Government is encouraging expansion of Formation and Promotion of Farmer Producer Organizations - FPOS to reduce transaction costs, access technology and increase bargaining power and integration with value chains.Government has supported 263 FPOs with financial realization of Rs.18.65 crore.

The A.P. Government has released Rs.230.72 crore through Direct Benefit Transfer - DBT to 2,57,479 horticultural farmers for input subsidy of horticultural crops which have suffered losses due to various natural calamities. Recently, additional compensation of Rs.182.60 crore was released to 90,789 horticultural farmers for their damaged coconut and cashew crops due to Cyclone Tilli-2018.

The post- harvest infrastructure now includes 5 solar poly dryers with a capacity of 2.50 MT, 40 solar cold rooms/ chambers with a capacity of 310 MT and 17 coconut pack houses with a storage capacity of 35 lakh nuts. So far, 2,02,079 farmers have registered for micro irrigation systems covering 2,38,070 hectares through RBKs in 2022-23. 2060 cuisine specific horticulture programs covering 61,800 farmers for productivity and quality enhancement in horticultural crops have been initiated and ongoing in the year 2022-23. Andhra Pradesh is the second largest silk producer in India after Karnataka. 75,005 farmers in the state cultivate mulberry plantations covering an area of 1,34,605 acres and Tasar silk plantations in 2,000 hectares in tribal areas by 1,660 tribal farmers. In the year 2022-23, an area of 7,775 acres has come under new mulberry cultivation.

During 2022-23 (up to December, 2022) 9,281.24 MTs (medium) international quality bivoltine cocoons, 1427.88 MTs 2A and above grade raw silk and 50,332 MTS reeling cocoons (BV +CB) were produced in the state. Silkworm productivity increases to 75 to 76 kg per 100 disease free layings (DELS). Net income for sericulture farmers. 450 new sericulture sheds are being ground in 2022-23 by expanding sericulture activities.

11. Livestock and Fish Farming:

Andhra Pradesh is proud of having famous and world renowned cattle breeds like Ongole and Punganur in cattle, Godavari buffaloes, Nellore in sheep and Asil in poultry. In 2021-2022, Andhra Pradesh ranked 1st in egg production (2,645.03 lakhs in number), 2nd in meat production (10.25 lakh MTs) and 5th in milk production (154.03 lakh MTs). According to the latest Livestock Census 2019, the livestock in the state is 46.00 lakh cattle, 62.19 lakh buffaloes, 176.27 lakh sheep, 55.22 lakh goats, 0.92 lakh pigs, 340.60. lakh total livestock and 1078.63 lakh poultry farms. Through RBKs, the government has distributed 2,000 MTS of certified fodder seed to nearly 80,000 farmers on 75% subsidy and 55,274.60 MT of quality tested Total Mixed Ration (TMR) to farmers on 60% subsidy. Under YSR Cattle Loss Compensation Scheme 2022-23 (Dec. , up to 2022) compensation was claimed for 1758 deaths.

28,628 units have been sanctioned to the beneficiaries under the Jagananna Palavelluva (YSR Cheyuta) scheme (up to December 2022) while 27,324 units have been grounded, while 6,680 units have been given to the beneficiaries under the Jagananna Jiva Kranti (YSR Cheyuta) scheme have been approved. 6,374 units. AP contributes 30% of the national fish production and shrimp in India to account for 35% of the total value of the country's seafood exports in 2022-23. is a major exporter. 37.18 lakh tonnes of fish and prawns are produced in the state. YSR 1,03,771 crore assistance was provided to 1,03,771 fishermen during the Fishery Assurance and Fishing Prohibition period.

In 2022-23 (up to December, 2022), the government has provided HSE oil subsidy of Rs.9.00 per liter to benefit 18,110 boats at a cost of Rs.37.50 crore. Financial benefit to the family of fishermen who died (while fishing) has been increased from Rs.5 lakh to Rs.10 lakh and 25 claims have been registered. Power Tariff Subsidy for Aquaculture @ Rs. 956.59 Crores annually to benefit 61,682 aqua farmers with a subsidy of 1.50%.

12. Forests:

According to the India State Forest Report, 2021, Andhra Pradesh has a forest area of 38,060.39 sq. km. km, which is 23.35% of the total geographical area, of which the most dense forest is 1994.28 sq. km. km, medium dense forest 13928.75 sq. km, open forest 13861.27 5.5. 0 5 0 8276.09 5.2.

To ensure a healthy living environment for urban citizens, so far, (23) urban parks have been completed and opened to the public, (7) temple eco- parks are being developed in the state. The state has 13 wildlife sanctuaries and 3 national parks covering an area of 8139.88 sq km, which is 21.87% of the state's forest area and 4.99% of the state's geographical area. In 2022-23 (up to December, 2022), the revenue from forest sector in the state is Rs.1339.83 crores.

13. Agricultural Marketing:

There are 1052 godowns in the state with a storage capacity of 9,65,492 metric tonnes, out of which 612 godowns with a storage capacity of 5,39,425 metric tonnes are in use. The market committees have collected Rs.391.69 crore (till December) as market fee in 2022-23. E- NAM, implemented in 33 markets in the state, has traded volume of 7.89 lakh MT with a commercial value of Rs.6202.90 crore. Assaying labs have been set up in 16 market yards of model market yards/ e- nam markets in the state. 1,72,651 lots were examined. APMCS Account . Between Rs.9.58 Crores and 1282.5 MT of cargo volume were transacted.

Introduced by the Govt., 'YSR AP One' is a multifaceted business enablement center that acts as a one- stop resource and support center for industries. 'YSR AP One' provides handholding support (to investors) during establishment and setup of industrial units. As per the new policy, the major incentive for prospective investor for medium, large and mega industries linked to employment generation is state goods and services tax reimbursement (limited to fixed capital investment) for five years. The current lease and purchase models for land allocation are being replaced by a composite lease+purchase model. Here the entrepreneur can purchase the land after successfully running the unit for 10 years. The State Investment Promotion Board (SIPB) under the Chairmanship of Hon'ble Chief Minister is sanctioning suitable incentives for new mega projects from time to time.

15. Global Investors Summit, 2023

The Government of Andhra Pradesh successfully organized the Global Investors Summit at Visakhapatnam on 34 March 2023. Investors from 25 countries and 30 corporate giants participated. It includes many international/ international business giants. On the occasion of the summit, a sum of Rs. 13.42 lakh crore and creation of 6 lakh jobs in 16 key sectors Andhra Pradesh has been classified as a "Top Achiever" in Ease of Doing Business under Business Reform Action Plan (BRAP) by Department for Promotion of Industry and International Trade - DPIIT, Govt. of India for the year 2020-21. 13 mega and mega projects have started production with an investment of INR 15,099.67 crore and provide employment to 12,490 people in 2022-23 (up to December 2022). 89 projects are actively running with a total investment of INR 2,24,498. Employment to 2,35,573 people. 55761 Micro Small & Medium Enterprises (MSMEs) have been established with an investment of Rs.13360.15 crores and have provided employment to 2,27,027 people during the year 2022-23 (up to January 9, 2023). Under the Prime Minister's Employment Generation Program (PMEGP), 1071 projects have been grounded by disbursing margin money of Rs.4299.44 crore in 2022-23 (as on 9 January 2023).

AP Government has declared Minimum Support Price for crops grown in AP. For these crops which have not been announced by the central government, the minimum support price has now been announced: Chillies Rs.7000 per quintal, Turmeric Rs.6850, Onion Rs.770 per quintal, Minor Onion- Rs.2500 per quintal, Banana- Rs.800 per quintal, Sweet Orange- Rs. .1400. AP is the only state in the country to collect daily agricultural prices from each RBK through Continuous Monitoring of Agricultural Prices and Procurement (CM APP) developed to provide end to end solutions from receiving daily price alerts from each RBK. Purchases are made where necessary.

100 farmers markets are functioning in the state. AP is the first state in the country to set up this marketing platform called 'E- Pharmaket' to connect the farmers of the country with the traders of the country with 42 Rythu Bazars worth 401.42 lakhs in the state in the year 2022. e Farmarket platform provides end- to- end solutions for buyers and sellers of agricultural and horticultural products traded in the state of Andhra Pradesh. The total trade progress through e- Farmarket application represents the number of 2932 traders and 3471 farmers benefited for the financial year 2022-23 i.e. till Dec-2022. The total transaction value is Rs.45.93 crores. Rs. Government has intervened to provide remunerative price to farmers and remunerative price to consumers who purchased 5317.40 metric tonnes of tomato worth 2.59 crores.

14. Industrial Development:

Through its Industrial Policy (2020-23), the state has set up various programs to develop diverse sectors such as agro and food processing, biotechnology, bulk drugs and pharmaceuticals, IT and ITeS, textile, automotive and auto components and tourism. Creating opportunities and employment for entrepreneurs. Industrial incentives Rs.482.27 crore for 5700 MSME units under General, OBC, SC & ST categories and Rs.334.83 crore for 104 large and mega industries in FY 2022-23 (up to December 2022).

16. Industrial Corridors:

To address infrastructure bottlenecks, high impact/ market driven nodes are proposed in the Chennai Bangalore Industrial Corridor (CBIC). The CBIC area covers parts of three states, Tamil Nadu, Karnataka and Andhra Pradesh, comprising about 3.7% of the country's total population of about 47.5 million. Krishnapatnam, SPSR Nellore District has been selected for development under Phase- I by DPIIT 13,919.67 acres is proposed to be developed in two blocks under this node. Hyderabad Bangalore Industrial Corridor (HBIC) Telangana, Andhra Pradesh And the area spread across the states of Karnataka, which is the central parts Adds Country with southern parts. Under HBIC, the Orvakal node in Andhra Pradesh covering an area of 9,800 acres has been identified for development in the initial phase and project development activities are being initiated.

The Visakhapatnam- Chennai Industrial Corridor (VCIC) has three industrial nodes at Vizag, Chittoor and Kopparthi, with a planned area of 33,000 acres. 30% of this area is currently under 'start. Up' is being developed as an area. Various industrial infrastructure projects are envisaged in this corridor with an estimated investment of INR 5,000 crores.

17. Industrial Infrastructure:

APIIC, which is the nodal agency for all industrial infrastructure projects including IT, biotech, apparel parks and SEZs in the state, has allotted 1164 acres of industrial land for 602 units with 78,866 employment opportunities and proposed an investment of Rs 26,629 crore. APIIC has a land bank of 46,532 acres for allotment In Mallavalli village of Bapulapadu mandal of Krishna district Rs. The Ministry of Food Processing Industries has sanctioned a goal for setting up a mega food park at an estimated cost. 112.97 5. The National Industrial Manufacturing Zone is envisaged to be developed into integrated industrial townships with state- of- the- art infrastructure in acres of land at an estimated project cost of INR 7500 crores. Planned under Tranche-1 in 4149 Acs startup area with estimated investment of INR.25,000 crores and project cost of INR 3640 crores with employment of 1.44 lakhs.

18. Trade and Exports:

Andhra Pradesh is one of the top five exporting states in India. It occupies a leading position among Indian states in the production and export of marine products, agricultural commodities and textiles, drugs and pharmaceuticals, organic and inorganic chemicals, petroleum products. AP issued G.O.Ms.No.24 (Industries & Commerce (Programme-1) Dept. Dt. 17.05.2022 (250 (2) Policy (APEX 2022-27). Export hub in the country by developing world class logistics and export infrastructure, promoting high quality product portfolio, enabling strong export oriented enterprises and creating integrated export ecosystems from districts to ports.

19. Mines and Geology:

Minerals are one of the major sources of revenue for Andhra Pradesh and a major contributor to the state's economic growth. Andhra Pradesh is a mineral rich state having many types of mineral wealth especially industrial minerals. The State is focusing on strategies in line with mineral resource inventory, key elements of legislation, objective and national mineral policy to accelerate growth leading to comprehensive development of the mining sector.

State Minerals and Mines Sector In 2021-22, mineral revenue to the state exchequer was Rs.3390.01 crore and in 2022-23 (up to December, 2022), mineral revenue was Rs.2094.13 crore, the state produced industrial minerals, dimensional stones and construction materials with Rs.16012.07 crore. A total of 94,33,054 metric tonnes of sand was supplied to consumers during this financial year.

17.5 CHALLENGES

The following are the challenges plaguing the state’s economy that are identified in the paper:

1. **Low growth in Industrial Sector**

Growth in AP’s industrial sector is struggling to gain momentum. From 2009 to 2014, industrial growth rates have remained at 5.6 percent, below the national average and far below the double digit growth rates of peer states like Tamil Nadu, Maharashtra, Karnataka and Gujarat.

2. **Regional disparities in the level of development**

Disparities are witnessed in the level of development between rural and urban areas on parameters such as unemployment rate (12 for rural and 43 for urban areas), labor force participation rate (477 for rural and 368 for urban areas) and workforce participation rate (399 for rural and 355 for urban areas).

3. **High levels of unemployment / casual employment**

The quality of employment remains a concern for the state; given the continuance of issues like low wage rates, the seasonality of employment, job insecurity, illiteracy, occupational hazards, etc. Around 94 percent of workers in the state are engaged in the unorganized sector, indicating the high prevalence of informal employment.

4. **Inadequate infrastructure financing**

AP is presently considerably behind peer states in terms of quality infrastructure. In terms of infrastructure financing, the state must create a platform with regard to access to funds to the private sector. Innovative funding options must also be explored in this regard.

5. **Gender gap in labor force participation**

The gap between male and female labor force participation rates must be addressed by the state. AP witnessed a female participation rate of 166 in urban areas in 2014-15, as against a male participation rate of 567 in the same category. It witnessed a female participation rate of 375 in rural areas in 2014-15, as against a male participation rate of 584 in the same category.

The following are the challenges plaguing the state's public finance management that are identified in the paper:

6. **Deterioration in resource mobilization**

The state's finances have suffered post bifurcation in 2014, as Hyderabad, a hub of economic activity and an important source of government finance, now no longer contributes to residual Andhra Pradesh. This has led to severe financial imbalance in the residual state, which is compounded by a huge expenditure liability (allocated on the basis of a 58.3 percent population share for AP). Being a predominantly agricultural economy doesn't help the state's case.

7. **High level of committed expenditure**

This expenditure mainly consists of commitments towards the payment of salaries, pensions and interest. The state has a high level of committed expenditure (pegged at 88 percent) and limited control over it.

8. **Public debt management**

Poor debt management is reflected in the way the state has borrowed at high rates to finance its consumption expenditure and breached its FRBM limits.

17.6 SUMMARY

The erstwhile state of Andhra Pradesh has been bifurcated into two states, Telangana, and residuary Andhra Pradesh (Seemandhra) by the Andhra Pradesh Reorganisation Act, 2014, or the Telangana Act. The Act consists of the aspects of the division of assets and liabilities, the boundaries of the proposed new states, and the status of the capital city Hyderabad after the separation of the state. Andhra Pradesh has a well-developed social, physical, and industrial infrastructure, as well as good virtual connectivity. It also has good power, airport, IT, and port infrastructure. Andhra Pradesh has been one of the foremost states to have developed sector-specific policies. Forming industrial clusters and developing infrastructure, such as biotech parks, textile parks and hardware parks has been the state's key strategy to attract investments in various industries. Andhra Pradesh is known for its pristine beaches, sacred places of worship, lush green forests, spicy cuisine, and hospitable people.

17.6 KEY WORDS

1. Manufacturing Sector in A.P. : The manufacturing sector is crucial for the economy of Andhra Pradesh. It provides employment and contributes significantly to the total GSDP of Andhra Pradesh. Some of the major industries of the state include automobile, pharmaceuticals, textiles, and food processing. The government has taken numerous initiatives to promote industrial growth, including the development of industrial parks and special economic zones.

2. Service Sector in AP : The service sector in Andhra Pradesh includes industries like retail, finance, real estate, and professional services. All these sectors contribute significantly to the state's GDP. This sector has witnessed substantial growth, driven by urbanization, increasing income levels, and government initiatives.

3. IT & ITES in AP : Andhra Pradesh has made significant growth in the IT sector, with developing major IT parks in Visakhapatnam and Vijayawada. The state government has adopted favorable policies, attracting investment from domestic and international IT firms.

This has led to job creation and economic growth, reinforcing the state's contribution to India's IT industry.

4. Fisheries in AP : Andhra Pradesh is a leading producer of fish and shrimp in India, contributing significantly to the country's seafood exports. The fisheries sector provides employment to a large number of people in the state and adds substantial value to the state's GDP.

5. Power Sector in AP : The power sector plays a crucial role in supporting economic activities in Andhra Pradesh. The state has made significant investments in renewable energy, particularly solar and wind power. This not only helps meet the state's energy demands but also attracts investment, promotes industrial growth, and creates employment opportunities.

17.7 SELF ASSESSMENT QUESTIONS:

Long Answer Questions:

1. Briefly analyze the important points in the A.P. Reorganization Act, 2014
2. What are the basic features of A.P. Economy
3. What are the Challenges of development in newly formed Andhra Pradesh

Short Answer Questions:

1. Demographic features of Andhra Pradesh
2. Geographical features of Andhra Pradesh
3. Trade and Commerce in Andhra Pradesh
4. Industrial corridors
5. Global Investors Summit, 2023

17.8 SUGGESTED READINGS

1. Socio Economic Survey Report of Andhra Pradesh, 2023
2. Andhra Pradesh Economy, Telugu Academy, 2023
3. Mahendra dev, “Human Development in Andhra Pradesh”, CESS, Hyderabad, 2009
4. A.P. Reorganization Act, 2014
5.Telugu Academy, A.P. Economy for Competitive examinations, 2023

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LESSON-18

CHALLENGES TO INDUSTRY AND COMMERCE IN ANDHRA PRADESH

Aims and Objectives:

After completing the lesson the student is able to demonstrate the following:

- ✓ Role of Industrial development in economic development
- ✓ Problems of Industrial sector
- ✓ Trends of industrial development in the state of Andhra Pradesh
- ✓ Industrial development strategy of Andhra Pradesh

Structure

18.1 Introduction

18.2 Role of Industrial development in Economic development:

18.3 A Critical Appraisal

18.4 Industrial growth trends in the state during the plan period before bifurcation 2014

18.5 Industrial centers of the districts:

18.6 Industrial Development Policy 2020-23

18.7 YSR AP One- One stop resource and support center for industries

18.8 Single Desk Portal

18.9 Integration with National Single Window System (NSWS):

18.10 The Swiss Challenge approach

18.11 Commerce and Exports

18.12 Summary

18.13 Key Words

18.14 Self Assessment Questions

18.15 Suggested Readings

18.1 INTRODUCTION

In Andhra Pradesh, which is the leading State in alphabetical order, is also rich in natural resources. Analysts feel that the climate conditions in the state are favorable for the establishment of industries. This State has 974 kilometers of coastline. Apart from the geographical advantages, there are ample opportunities in the State like sufficient transport and communication facilities, expert human resources in information technology fields, promising markets etc.

The State is ranked Sixth in India in terms of availability of mineral wealth. First place in asbestos, Second place in limestone, and also recognized in the world for bauxite mineral. 86% of the total limestone in the country is available in our State. The Red sandal wood which is available in the State is world famous. The best grade Abracam which fetches more foreign exchange in our country is available in Nellore district of the State. Our state is second in terms of availability of Abraham. Similarly, our state has 20 percent of the manganese deposits in the country. It is a remarkable fact that the first gold mine in the country is found in our state. There are oil deposits in the basin between Krishna and Godavari. Efforts are being made to extract them.

It is known that natural gas on the coast of Godavari and Krishna delta areas and petrol inside the coast can be obtained profitably. Our state has a good environment in terms of technology. State Boards of Technical Education were established in 1981. There are many defense research centers in the state Central Govt. Besides, many thousands of scientists, engineers and other technical experts who have completed technical education in the state are working at high level in the research institutes of the country and abroad. It means that there is no shortage of technical skills in our state. The state government has set up many institutions in terms of investment for industries and infrastructure development. Many nationalized and commercial banks provide loans to entrepreneurs and aspiring entrepreneurs.

18.2 ROLE OF INDUSTRIAL DEVELOPMENT IN ECONOMIC DEVELOPMENT

The economic history of developed countries speaks that industrial development is a pre-requisite of rapid economic growth of a country. The effects of industrialisation in the economy of a nation are many and varied. The main effects are as follows:

(1) Rise in the Per Capita Incomes.: The first and the foremost effect is that it is industrial development that can provide a firm basis for a rapid increase in the incomes of the people. The economic history of most of the developed countries indicates that the progress of industrialisation was accompanied by an increase in national and per capita income. The behaviour of the small industry-oriented countries is, however, different since the share of primary production in them (as a percentage of GNP) falls more slowly and the share of industries also rises at a slow rate.

(2) Changes in the Social Environment: Viewed from a sociological angle, another important impact of industrialization is that the social outlook of the people undergoes drastic changes. The traditional village life with its communal bonds is completely transformed as large number of villagers go away to cities to work in industries. A new entrepreneurial class is born, capital formation increases, technical innovations take place and new skills emerge. All these developments have a far reaching effect on social relationships and this change is, in fact, the precursor of a new, modern and vibrant society.

(3) Agricultural Productivity and Agricultural Reforms: In an underdeveloped country, the agricultural productivity is low for want of capital investment and use of modern techniques. These economies are mostly overpopulated and taking a lead against several shortcomings existing in agricultural sector such as sub-division and fragmentation of land-holdings, traditional outlook of farmers, and obsolete methods of cultivation etc. It is essential for rapid economic development that the share of the industrial sector should rise and that of the agricultural sector decline. Merely a deliberate industrial policy can make it possible.

(4) Source of Employment in Agricultural Sector: In overpopulated underdeveloped countries, millions of people in rural areas are unemployed or underemployed. Moreover, they are the victims of disguised unemployment whose marginal production is zero or negligible. This surplus labour force can be transferred from agriculture to industry with a little or no loss of agricultural overall production. Thus, such poor economies have no other alternative but to have industrialisation.

(5) Better Terms of Trade: Underdeveloped countries are fundamentally exporters of primary goods and importers of manufactured goods. The policy of protectionism as adopted by d by advanced countries has resulted in falling or remaining stable prices of their primary products and in raising prices of manufactured products. It has made unfavorable terms of trade and faster economic development, that they need industrialization, so as to stimulate particularly import substituting and export-oriented industries which is likely to control the prices of their primary products and further, to make their terms of trade favorable.

(6) Psychological Boost. In underdeveloped countries, the people in general are found to be uneducated, customary and traditional. They have obsolete outlook particularly in the context of rationalisation and modernisation in the field of production and consumption. They therefore, need industrialisation usin new technology, diverse the skills, larger enterprises and bigger cities. As such, the industrialisation is likely to provide them urbanisation, employment opportunities and additional incomes to the people of the country.

(7) Increasing Returns and Economy of Scale. The industrial development brings an underdeveloped economy on the way of increasing returns and an economy of scale. In comparison to industry, agriculture does not obtain these objectives. "These economies reside in training, stimulating communication, interaction within industry, demonstration effects in production and consumption, and so on.

(8) Structural Changes in the Economy. The most important structural change in the economy induced by industrialization is in the occupational pattern. Underdeveloped and most of the developing countries are characterised by heavy dependence of their population on the agricultural sector. Incomes in this sector being low, the economies of these countries remain stagnant and backward. Industrialization brings about a marked change in occupational distribution by opening up substantial employment opportunities in the industrial sector. Thus industrialization brings with it strong forces and dynamism that help the countries in breaking the shackles of stagnation.

(9) Raises the Standard of Living. The rising national income and per capita income due to industrial development is associated with rising demands for larger volume of goods made made up of a variety of industrial goods. People enjoy the fruits of industrial development in the form of variety of goods and services available in urban centres for consumption. These also affect the rural sector through the demonstration effect. Thus, industrial development tends to raise the standard of living of the urban and rural masses.

(10) Strengthening the Economy. Industrial development strengthens the overall economy of a country. The reasons are not far to seek. Firstly, it imparts dynamic contents to the economy. Secondly, it enables a country to produce many goods of different varieties for building infrastructure. Thirdly, industrial development imparts elasticity to the system through the diversification of economic activities. Fourthly, the level of agriculture can be pulled up both by absorbing the excess rural labour, and by supplying it the modern inputs for expansion, Fifthly, through the development of heavy industries like steel, machine making etc., the capital stock of a country expands, enabling it to produce more. Finally, the diversified economic structure, which industrial development makes possible, also provides things necessary for the defence and security of a country.

From the above study we conclude that industrial development brings social transformation, agricultural development, increase in national income and per capita incomes, more employment, structural changes in the economy, better terms of trade, social equality, more equitable distribution of income, strengthening of the economy, rise in standard of living, balanced regional development and above all, brings all-round prosperity in the country.

18.3 A CRITICAL APPRAISAL

Despite the above contributions of industrialisation in the economic development it will be wrong to assume that it will bring an all-round prosperity in a country over-night. As a matter of fact the policy of industrialisation followed by underdeveloped countries in the early phase of their economic development has not brought the expected economic and social benefits. It has utterly failed to reduce the inequalities of income and wealth, regional imbalances and unemployment. The main pillars of criticism of industrial development are as follows:

(1**) Slow Growth**. The experience of underdeveloped countries reveals that the industrial growth has been so small as to make very little impact on their overall growth rate. The result is that in the face of rapidly rising population, the growth of national income has been quite negligible. With the small industrial growth, the rate of absorption of excess labour from the rural sector has been negligible too. Thus, despite some industrial growth, the economic scene of the underdeveloped countries has not changed much for the better.

(2) **Costly Industrial Growth.** Another major criticism against industrial development is that the industrial growth in underdeveloped countries has been quite costly. It is more capital-intensive and import-intensive which the underdeveloped countries cannot afford. With small domestic currency to pay for foreign currency, it is cheaper for the producers to import capital goods and many inputs rather than buy them at home.

(3) Uneven and Unjust Industrial Growth. Another criticism against industrial development is to that the growth in certain regions, sectors and groups of persons has been uneven and unjust. The regions in many of these countries have not been equally favoured by industrial development. In fact, the very logic of industrial-based growth, requiring high income markets, intrastructural facilities etc., led to the concentration of economic activities in the already developed and semi-developed regions. On the contrary, less developed sectors remained as usual. This increased inter-regional disparities.

(4) Miscellaneous Problems: Besides the above, industrial development has created other several problems, such as, (i) Industrial sickness, (ii) Problem of slums in industrial sectors, (iii) Rural stagnation, (iv) Mushrooming growth of the urban underclasses,(v)

Organisational power failures in government bureaucracies,(vi) Executive high rate of growth of population and labour force, improper etc.

In this the state Government of Andhra Pradesh has conducted many studies to expand the industrial sector in the State in the direction of greater utilization of natural resources and strategies are being implemented to develop industrial consciousness and culture among the people of the state. Giving special priority to the industrially backward areas, the state government is giving utmost importance in the industrial policy to contribute to the balanced development of different areas. Besides, many new schemes are being designed and implemented. Some of such initiatives have been discussed in the following pages.

18.4 INDUSTRIAL GROWTH TRENDS IN THE STATE DURING THE PLAN PERIOD BEFORE BIFURCATION 2014

The state government has been giving utmost priority in industrial policy to establish good number industrial centers to increase power generation and to maximize utilization of the vast natural resources of the state. Likewise to identify specific programs to support rapid development in our state. Overall, the state government implements several incentive schemes to broaden the industrial base in our state. In this context, let us examine the pattern of industrial development in the state.

If Andhra Pradesh, which is mainly an agricultural state, is to be industrialized and grow unitedly, the program has to be done in a planned manner. Although industrialization did not take place during the first two five- year plans, it picked up somewhat in the decade of 1960-70 and by the fourth plan period, our state also started walking on the path of development in the industrial sector. The efforts of industrial promotion organizations like Financial Corporation and Andhra Pradesh Infrastructure Development Corporation, Andhra Pradesh Industrial Development Corporation, Small Scale Industries Development Corporation, Andhra Pradesh etc., have been very active for this direction. At the time of independence, only 32 large and medium industries were functioning in the state. During the First Plan period, out of Rs.9678 crore allocated to our state, only 1.5 percent was allocated to the industrial sector. 13 industries have been set up in the state during this plan period. Out of these there are five engineering industries, four textile industries, one chemical and three agro- based industries. By the end of the plan, 48 large and medium industries were operating in the state. Till 1957 there were 13,519 workers in 1229 small scale industries in the state. Although the National Industrial Policy was introduced in 1956, it did not affect the state. Until 1995 there was no much attention towards enhancing the industrial pace in the state. After 1995, the Governments have initiated certain special programmes in this direction, particularly in Software industry. However, the industrialization was concentrated only to Hyderabad city and the rest of the State was not that much benefitted. After bifurcation in 2014, the situation further deteriated.

The present Government of Andhra Pradesh is committed to industrialization and for creating jobs for the youth. Although predominantly agrarian, the government has recently undertaken structural reforms in the state to accelerate industrialization by creating a favorable ecosystem for investment. Through its Industrial Policy (2020-23) the state is agro and food processing, biotechnology, bulk drugs and pharmaceuticals, IT and ITeS. Policy also resolved to set up various programs to develop different sectors like textile, automotive and auto components and tourism.

After the bifurcation of the state, the MSME profile of the state shifted significantly towards capital intensive industry. The government has identified competitive MSMEs as a central theme to develop the MSME sector. Creating opportunities and employment for entrepreneurs in the manufacturing sector is a major focus in the state which is accounting for around 11% of GSDP. Make MSMEs a core part of the global value chain and become the flag bearer of brand Andhra Pradesh. The government plans to focus on the manufacturing sector by properly identifying opportunities for value creation and improvement, making the Vizag Chennai Industrial Corridor (VCIC) and the Chennai - Bangalore Industrial Corridor viable options to promote growth and improve employment opportunities. The Government is determined to continue relentlessly with the Government of India on Special Category HUDA (SCS) to Andhra Pradesh as it will not only attract better industrial incentives but also create additional employment opportunities.

18.5 INDUSTRIAL CENTERS OF THE DISTRICTS

District Industries Centers have been established to act as nodal agencies in the district to assist entrepreneurs in setting up industries. These centers provide all necessary permits and approvals for setting up industries at a single window. The District Industries Centers are the implementing agencies of the Micro Small Medium Enterprises Development (MSMED) Act. In addition to maintaining effective linkages with various financial institutions in arranging necessary credit facilities, information regarding the industrial development of the districts is maintained in these centres. All MSME claims are now sanctioned at the district level as compared to the earlier claim of micro enterprises.

18.6 INDUSTRIAL DEVELOPMENT POLICY 2020-23

The Andhra Pradesh government has introduced the AP Industrial Development Policy (IDP) 2020-2023, which identifies 10 thrust areas to boost economic growth, with manufacturing as a high priority sector providing large- scale employment. Government has identified as a focus area, Industrial zoning, is crucial to ensure planned industrial development and provide a risk- free, investment- friendly environment for establishment and operation of industries in the state with minimal impact on the environment. De- risking investments is the cornerstone of the New Industrial Policy.

18.7 YSR AP ONE- ONE STOP RESOURCE AND SUPPORT CENTER FOR INDUSTRIES

The government established 'YSR AP One - A multifaceted business enablement center that will act as a one- stop resource and support center for industries. "YSR AP One" provides handholding support (to investors) during pre-establishment and setup of industrial units. Under the new policy, the main incentive that a prospective investor will get is a five-year refund of State Goods and Services Tax (limited to fixed capital investment) for medium, heavy and mega industries linked to employment generation. The current lease and purchase models for land allocation are being replaced by a combined lease or purchase model. Here the entrepreneur can purchase the land after successfully running the unit for 10 years.

Food processing, pharmaceuticals and biotechnology, textiles electronics, footwear and leather, toys and furniture, petrochemicals, aerospace and defence, automobiles and components, machinery, precision based industries are the thrust areas of the new industrial system. As part of facilitation through e- Governance, related industries Restrictions on Industrial Incentives Department is processed through online submission of applications. Special emphasis has been given to establishment of micro, small & medium scale industries with huge employment opportunities and enhancement of production capacities.

Ease of Doing Business and Single Window Mechanism is another major initiative of the government of Andhra Pradesh under the e- biz project of the National e- Governance Plan of the Government of India. Andhra Pradesh is the only State in the country to take the initiative in bringing in a single window clearance system. It provides efficient, convenient, transparent and integrated electronic services to investors and entrepreneurs. Special emphasis is given to establishment of MSMEs with huge employment opportunities and improvement of production capabilities.

To create a hassle- free environment for investors, the Government of Andhra Pradesh is effectively implementing the Eka Gawaksha Act and setting up various industrial permits in a time- bound manner. The Single Desk Policy through the Single Desk Portal (SDP) aims to create an ecosystem that provides all necessary permissions to set up an industry within 21 working days. "Ease of doing business" strategy is the main focus to attract investments.

1. For the year 2020 21, DPIIT has been classified as Andhra Pradesh Top Achiever in Ease of Doing Business under Business Reform Action Plan (BRAP) released by Government of India.
2. Industrial growth is a key agenda for this government and many reforms have been introduced under Business Reforms Action Plan (BRAP) of DPIIT, Government of India to establish business in the state. The framework mainly focuses on simplification of processes, online enablement, single window system and timely delivery of services.
3. In the year 2022, GoAP has successfully implemented a total of 352 recommendations (261 reforms related to business 91 reforms related to citizens) under the Business Reform Action Plan- 2022. Evaluation is 100% based on feedback only.
4. Achievements under BRAP-2022, 73 additional services notified under AP Public Service Delivery Guarantee Act. Added 5 new services AP Single Desk under EoDB.

1. AP SEVAS has added 11 new services under portal and ease of living taking the total services to 93 (under one roof) in the year 2022-23.

18.8 SINGLE DESK PORTAL

Single Desk Portal (SDP) serves as a one- stop shop for all investor needs. It is an investor- centric online system to ensure convenient access to information and timely regulatory clearances. It eliminates the need for physical interaction with regulatory authorities by providing for online filing and tracking of applications. It allows making payments electronically to get timely approvals online and download the final signed approval certificate online.

Since inception, the portal has received more than 78261 applications for permits, of which 75693 have already been approved. From April 2022 to December 2022, 99.30% of applications were approved. 421 heavy and mega industries have submitted their proposals to the state nodal agency for 2021-22 for 718 permits/ permissions from various departments. 685 cases have been given tolerance / approvals. 4711 MSMEs submitted proposals to the District Level Nodal Agency for 7421 permissions/ permissions from various departments, 7236 cases were granted permissions/ permissions.

18.9 INTEGRATION WITH NATIONAL SINGLE WINDOW SYSTEM (NSWS):

A single desk portal has been integrated with NSWS to allow users to access central services like Company Registration, Tax Registration, Mining, Food, Drug, Petroleum, Explosives etc. along with SDP services. So far 129 SDP services have been linked with NSWS.In recent times, new policies are being followed by the government to attract investments Recently, the state government organized two partnership conferences to attract investment in the state of Andhra Pradesh, with the help of the Department of Commerce and Industry of the Central Government and in collaboration with the Confederation of Indian Industry (CII). organized. The state government has named this lake as Sunrise Andhra Pradesh Investment Conference.

First partnership meet

a) State Govt. conducted the 1st Partnership meet for three days between 10-12 January 2016. b) Agreements have been concluded for total investments of Rs.4,76,878 crores for the state. C) In this conference, the government expected that agreements to the extent of Rs. 2 lakh crores could be signed, but unexpectedly, agreements to the extent of Rs. 476 crores were signed. d) On the first day of this conference Rs. The state government has signed 32 huge contracts involving investments to the tune of 1.95 lakh crores. On the second day, 282 MoUs were signed for investments worth Rs.1.92 lakh crore. Finally, on the third day, 48 deals were signed for an investment of Rs.88,850 crore. e) It is estimated that the state will get 10,27,121 new jobs through the attraction of investments in this conference.

Second partnership meet

A) The State Govt. has organized for two days between 27-28 January 2017. b). Agreements have been signed for a total investment of Rs.10,64,390 crores for the state.c) 666 MoUs were signed in this conference. Representatives from 50 countries attended.D) It is estimated that 22.34 lakh new job opportunities will be created for the state through the attraction of investments in this lake e) In this conference, Andhra Pradesh government has set a target of achieving investments of 100 lakh crores by 2029.

18.10 THE SWISS CHALLENGE APPROACH

Andhra Pradesh government has adopted 'SWISS CHALLENGE' policy as part of the policy of attracting investments from abroad in the construction sector. The method of selecting a contract for tendering on behalf of another government in public sector structures is known as the Swiss Challenge system.

Criticism: Recently, the High Court has faulted the Revenue Componetti for informing the Singapore company but not the other companies. According to this system all the revenue component should be declared.

18.11 COMMERCE AND EXPORTS

Andhra Pradesh is one of the top five exporting states of India. It occupies a leading position among Indian states in production and export of marine products, agricultural commodities and textiles, Drugs and Pharmaceuticals, Organic and Inorganic Chemicals, Petroleum Products. Government of AP have issued Andhra Pradesh Export Promotion Policy (APEX 2022-27) to establish Andhra Pradesh as a leading export hub in the country through development of world class logistics and export infrastructure, promotion of high quality product portfolio, enabling robust export oriented institutions and creating integrated export ecosystem from districts to ports.

18.12 SUMMARY

It can be concluded that the Government of Andhra Pradesh has been very keen with respect to industrial development in the state. For analyzing the industrial growth pattern in the state, the State Statistics Department regularly prepares an index of industrial production. For this it collects good production statistics of 524 industries. Out of them 522 industries are related to manufacturing sector. The remaining 2 are mining and power sector. Industrial production index is a good measure of industrial growth in a state. The Industrial Production Index is estimated on a monthly basis based on data collected from selected manufacturing, mining, carrying and power units. The main objective of the IIP (IBP) is to estimate the contribution of the three major sectors of the industrial sector to the Gross State Domestic Product. The results proves a positive trend in the industrial development for the last few years.

18.13 KEY WORDS

Industrial development : It is the building and growing of industries within an economy by using new technologies which make jobs easier, faster, and better and lead to an increase in a business' output and an increase in profits.

Industrial Policy : A country's industrial policy (IP) or industrial strategy is its official strategic effort to encourage the development and growth of all or part of the economy, often focused on all or part of the manufacturing sector.

NSWS : A single desk portal has been integrated with NSWS to allow users to access central services like Company Registration, Tax Registration, Mining, Food, Drug, Petroleum, Explosives etc. along with SDP services

Swiss Challenge System : The method of selecting a contract for tendering on behalf of another government in public sector structures is known as the Swiss Challenge system.

18.14 SELF ASSESSMENT QUESTIONS

Essay type questions:

1. Critically Analyze the Role for Industrial Development in economic development
2. Evaluate Trends of Industrial development in the State of Andhra Pradesh since 2014
3. Briefly explain Industrial Policy-2020-23 of Andhra Pradesh

Short Answer questions:

1. YSR AP One- One stop resource and support center for industries
2. Partnership meets
3. Swiss Challenge Approach
4. Trade and Commerce in the state

18.15 SUGGESTED READINGS

1. Socio Economic Survey Report of Andhra Pradesh, 2023
2. Andhra Pradesh Economy, Telugu Academy, 2023
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4. A.P. Reorganization Act, 2014
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Prof. K. Madhu Babu

UNIT – 19
INFRASTRUCTURAL DEVELOPMENT IN ANDHRA PRADESH

Aims and Objectives:
After completing the lesion the student is able to demonstrate the following:
- ✓ The new initiatives to develop infrastructure
- ✓ Power and Transport sectors
- ✓ Information Technology and e-governance
- ✓ Urbanization and smart cities

Structure

19.1 Introduction
19.2 Power in Andhra Pradesh:
19.3 Transport sector in Andhra Pradesh
19.4 Information Technology and e-governance:
19.5 Urbanization and Smart cities:
19.6 Summary
19.7 Key Words
19.8 Self Assessment Questions
19.9 Suggested Readings

19.1 INTRODUCTION
Infrastructure is defined as the basic physical systems of a business, region, or nation and often involves the production of public goods or production processes. Examples of infrastructure include transportation systems, communication networks, sewage, water, and school systems. Investments in infrastructure tend to be costly and capital-intensive, but vital to a region's economic development and prosperity. Projects related to infrastructure improvements may be funded publicly, privately, or through public-private partnerships. Because infrastructure often involves the production of either public goods or goods that lend themselves to production, it is typical to see public financing, control, supervision, or regulation of infrastructure. This usually takes the form of direct government production or production by a closely regulated, legally sanctioned entity.

19.2 POWER IN ANDHRA PRADESH
Power sector is a critical infrastructure element required for the smooth functioning of the state economy. An efficient, resilient and financially robust power sector is essential for growth and poverty reduction. The availability of reliable, quality and affordable power helps in the rapid Agriculture and Industrial development and the overall economy of the state.

Electricity Generation - Distribution
A source of energy for work. Sources of energy are called fuels. Energy fuels are of two types, namely, 1) Commercial fuels and 2) Non- commercial fuels. Commercial Fuels consists of 1) Coal, Lignite 2) Petroleum 3) Natural gas 4) Nuclear fuel and Non-Commercial Fuels consists of 1) Sunlight 2) Water 3) Gas 4) Cooking sugar cane 5) Animal waste 6) Fruits, Vegetable skins.

Electricity is a carrier or one of the forms of energy. Most important. According to the Constitution of India, the combined list of power generation, distribution, central and state governments is as follows.

- The first in India was a small hydroelectric unit set up in 1897 at Darjeeling with the help of the Maharaja of Burdwan.
- The first thermal power unit was set up in 1899 at Imambagh, Kolkata. Its founder is Calcutta Electric Supply Corporation Limited.
- The first Electricity Act was made in 1910.
- Electricity Supply Act was passed in 1948 under Ambedkar. Electricity Boards are set up in the states for generation and distribution of electricity.
- The Central Electricity Authority (CEA) was set up in 1975. National Thermal Power Corporation (NTPC), National Hydro Power Corporation (NHPC) were set up.
- Madras State Electricity Board was set up in 1926-27. Before the formation of Andhra State in 1953, the Andhra and Rayalaseema areas which were part of Madras State were getting electricity from it.
- Thermal power stations were functioning at Nellore, Vijayawada and Visakhapatnam. The total production capacity of these three centers is 24,000 KW.
- . Apart from this, 13 other locations operate diesel power plants. Their total production capacity is 11,000
- 2,000 KW from Mysore Jog power station, 3,400 KW from Madras Mettur station, 700 KW from Mysore Shiva Samudram station. Electricity is available.

Electricity is supplied by 12 licensed electricity companies in the private sector, apart from the government electricity department. In 1953-54 the number of electricity consumers in Andhra State was 53,839.

Andhra Pradesh State Electricity Board (APSEB)

Andhra Pradesh State Electricity Board was established on 1st April 1959 with headquarters at Hyderabad in the united state of Andhra Pradesh. In 1959-60, three private sector power plants in the state were nationalized. The rest became government- owned in a phased manner.

Electrical reforms

In 1995, the Government of Andhra Pradesh appointed the Hitenbhayya Committee in response to the Center's recommendation that the states should undertake power reforms to save power boards from losses.The state government has undertaken power reforms as per the recommendations of the Hitenbhayya Committee. In 1998, the Electricity Reforms Act was passed.

Andhra Pradesh Electricity Regulatory Council (APERC)

This Regulatory Board was constituted on 31st March, 1999 under the Andhra Pradesh Electricity Reforms Act, 1988. It takes initiatives to improve the performance of the power sector in the state. Its responsibility is mainly to protect the interests of consumers. It determines the electricity charges. It issues orders to take appropriate measures for regularization of power supply.

GENCO and TRANSCO:

Andhra Pradesh Power Supply Corporation (APTRANSCO) was formed in December 1998 as part of power reforms. Started functioning from February 1999. In the united state of Andhra Pradesh, their headquarters were in Hyderabad.

AP Gen Co: Responsible for the management of power generation, under which the power generation companies operate. Its function is to modernize the production units already functioning in the state and to set up new establishments/ units. After the bifurcation of the state its headquarters was shifted to Vijayawada.

Andhra Pradesh Power Development Company Limited (APPDCL): This is a joint venture with AP Gen Co Infrastructure Leasing & Financial Services and Cheri with 50 per cent equity.

A.P. Trans Co: A.P. It is responsible for supplying electricity generated by GEN Co., APPDCL to various areas. Apart from that, this company is the only company that buys and supplies electricity from the central electricity grid and private companies. From 1999 to 2005 only this company used to buy electricity. Since 2005 that responsibility has been handed over to distribution companies. After the bifurcation of the state the headquarters was shifted to Vijayawada.

Power Generation Companies in the State, 2021

As on 31 March 2021 the total number of power generation companies operating in the state is 20. Out of which 2 are government companies and 18 private institutions. 19 under government organizations, 49 under private organizations, a total of 68 power companies are working.

Government Organizations :

1) Andhra Pradesh Power Generation Company Limited (APGENCO). This was in February 1999 established. It has 13 units working
2) Andhra Pradesh Power Development Company Limited (APPDC): It was set up in March 2006. It has 6 units working. Total power units operating under Government institutions are 19.

Private sector Institutions:

The total number of private institutions is 18. The number of power units operating under them is 49. Installed capacity of power generation units, production There are two public sector companies that generate electricity in the state. They are : 1) A.P. Genco, 2) A.P. Power Development Corporation, the second comes under the combined sector. Electricity is also being produced in the private sector. The state also gets a share from the electricity generated in the central sector.

Total Installed Capacity (30-11-2022)

Total Installed Power: 18518,062 MW: Of which AP Genco: 5589.03 MW (30.3 percent) AP Power Leg-6 : 1600.00 (8.6 %) 3 : 9675.656 (52.2) Share from Center : 1978.806 MW (10.7 percent). This shows that the share of the private sector in the total installed capacity is high.

Total Production (2022-23, Provisional): 47648.34 mU of which A.P. Genco (Hydel & Thermal) 18710.63 mU (39.3 percent) Production of non- conventional sources of electricity: Wind 5927,03 mU: Solar: 5066,39 mU. Other non- conventional sources: 585.49 mU (Total production of non- conventional resources: 11578 mU (24.3 percent) Other Institutions: 17358.80 M.U. (36.4 percent) Production from non- conventional sources is high.

Demand and consumption

Maximum Demand (8-4-2022): 12,293 MW: Minimum Demand Met: 12,293 MW Maximum Grid Consumption (1-4-2022): 234.15 Mu Total users: 205.77 lakhs; Agricultural Services: 18.87 Lakhs Per Capita Consumption: 1,00 kw. Xy l (2020-21) Total consumption: 53,541.21 mU; Out of which use of low tension: 34,234-21 percent); High tension consumption: 19,307.00 m.u. (35.1 percent) Share of different classes in total low- tension consumption (in percentage)

Housing needs: 49.1; Non- domestic needs Commercial 7.4; Industries: 3.9; Agriculture and allied needs: 35.8; Installation needs (street lighting, general use, temporary use: 3.8. Consumption for domestic purposes is the largest in total consumption, followed by consumption for agriculture and allied purposes. Consumption for non- domestic purposes (commercial) ranks third. District with highest per capita consumption in 2020-21: Visakhapatnam (1654 kw), West Godavari (1462 kw), Sri Potti Sriramulu Nellore district (1296 kw) in second and third positions.

Government schemes for the development of Power Sector:

Rajiv Gandhi Rural Electrification Yojana (RGGVY)

This is a central scheme, launched in April 2006 with an aim to electrify all villages in the country. A part of this program is providing free electricity connections to poor families. The scheme is implemented by Rural Electrification Corporation (REC). This scheme has been implemented in Andhra Pradesh. According to the census of 1991, the number of villages in Andhra Pradesh was 26,586, and 100 percent of the villages were electrified by 1990. By the end of the scheme in 2014, some progress had been made in providing electricity connections to households.

Deenadayal Upadhyay Gram Jyoti Yojana (DDUGJY)

It is a central scheme. Launched on 3rd December 2014. The Rajiv Gandhi Rural Electrification Yojana was incorporated into it. Grameen Electrification Corporation acts as the nodal agency for the implementation of this scheme. This scheme has two parts:

1) Rural Electrification: Providing electricity connections to residential areas and houses of poor families; and

2) Other activities: a) Providing regular supply of electricity to various types of consumers

By 2019 in Andhra Pradesh, 1,81,930 families have been given electricity connections under this scheme. With this, 100 percent of the target was achieved. Other than the voltage conversion, the rest of the work is done.

Rural Electrification App (GAPP)

Central Rural Electrification Agency 2015 Rural Electrification App (GARVAPP) has been released to monitor the implementation of rural electrification and household electricity connection programme. It was upgraded in 2017.

Pradhan Mantri Sahaja Bjili Har Ghar Yojana (PMSBHGY) Saubhagya

The scheme was launched on 25th September 2017. Its main objective is to provide electricity connections to all the hitherto un- electrified houses in rural areas, solar power supply arrangements will be made to unreached villages and houses. This applies to poor houses in urban areas as well.

stand up

This central scheme was launched on 11th October 2017. This applies to electrified households in villages and towns. Subsidies of solar power batteries are provided to households in remote inaccessible areas. They have 5 LED bulbs, one DC. Fan can be used.

River of green energy

A central government scheme launched on 3rd December 2014,The components of this scheme are: 1) Strengthening (distribution).Sub- transmission and distribution of electricity in urban areas 2) Urban distribution transmitters, transformers, feeders, first stage of consumption Installation of meters on roads 3) Introduction of information technology in distribution sector 4) Bhagaru Installation of cables, smart metering solution for both states, installation of solar panels with net metering on government buildings.

Andhra Pradesh Rural High Voltage Distribution System Project (APRHVDS):

The aim of this scheme is to reduce losses by replacing low voltage network with high voltage network. High capacity distribution transformers such as 100 kVA/ 63 kVA will be replaced by a large number of low capacity distribution transformers such as 25 kVA/ 16 kVA. This can reduce losses by 10 percent. This scheme has been implemented for 44,055 agricultural services till November in 2022-23. So far this scheme has been implemented for a total of 12,66,685 services. (Externally Aided Projects) 69 works have been sanctioned under section 247 of the World Bank Scheme for Electricity to All. 30 tasks completed. 29 works are in progress. Visakhapatnam- Chennai Industrial Corridor Projects 6 packages of assistance to Asian Development Bank have been sanctioned. 3 tasks are completed. 3 are in progress.

Accelerated Power Development and Reforms Program (APDRP):

Scheme launched by the Union Government in 2020-21. The World Bank will help. The objectives of this program are to increase the reliability of power supply at the distribution level and to support the commercial viability of state power departments, 4 works and 1 goods have been sanctioned. The goods are complete 4 works in progress.

Green Energy Aisle 1 & 2

Harita Shakti Nadava is a comprehensive scheme launched during the 12th Plan period for deployment and integration of an additional 32,713 MW of renewable energy (RE) capacity. The scheme is supported by KFW (an international organization) and the Union Ministry of Renewable Energy. Andhra Pradesh is one of the seven states included in the first phase. Seven more states were included in the second phase. Its aim is to synchronize electricity generated from renewable energy sources like wind power and solar power with electricity generated from conventional sources through the grid. 8 packages have been sanctioned under this in the state.

National LED Programme

The program was launched by the Union Government in January 2005. This is a scheme started for economical and efficient use of electricity at low cost.

1) Uchiha Jyoti Jeevan (UJALA) through Affordable LED Scheme for All. Under Unnat Jyoti Jeevan by Affordable LED for All (UJALA), 77 crore household consumers in the country will be replaced with LED bulbs. In the state of Andhra Pradesh, the target of distribution of 2.32 crore LEDs has been distributed to 2.20 crore people. Due to this, 1621 m.u. Electricity is saved. 1131 crores saved. Two 7W/ 9W bulbs at Rs.10 each have been distributed to the family in place of 60W bulb. This will save 73.7 units of electricity per year per household.

2) Street Lighting Program (SLNP): By March 2019, the program aims to replace 1.34 crore conventional street lamps with LED lamps in the country. The results achieved by Andhra Pradesh under this scheme are as follows. Installation of LED street lights in municipal towns: In 106 towns, 6.2 lakh ordinary street lights have been replaced with LED lights. 133 million units of electricity saved Energy conservation

3) Installation of LED Street Lights in Gram Panchayats: With the help of the Central Government Energy Efficiency Services Corporation (EESL), a program has been started to install 30 lakh LED street lights in 13,065 Gram Panchayats in 26 districts of the state. Jata has been done. 279 mU of electricity, money saving of Rs. 195 crores has been done. One island saves 11 units of electricity.
Central Electricity Citric acid

Distribution of electricity saving ceiling fans

In 2016, central government agency Energy Efficiency Services Corporation (EESL) first launched the program in the state of Andhra Pradesh. Later it was implemented across the country. Under this scheme, 5 star rated ceiling fans will be supplied to interested consumers in place of regular fans. These forms are distributed for Rs.100 in lump sum or Rs.53 per month in installments. While a normal farm consumes 75 watts of electricity per hour, this farm consumes only 50 watts of electricity and the target of distribution to 19 lakh farms in the state has been set. As of 2018, more than 2.6 lakh Panchipellas

AP Green Energy Corporation:

The state government is spending Rs.10,000 crore annually on agricultural subsidy, electricity subsidy for lift irrigation and aqua cultivation subsidy. Free electricity is given to farmers for 9 hours during the day. As the number of pump sets increase in water supply and electricity cost increases, the subsidy burden increases. The government feels that this load can be reduced by 1 po through solar power.

Andhra Pradesh has set up Harita Shakti Sansthan to provide 8000-10000 MW of solar power installed capacity to provide free electricity to farmers in the long run. 6100 MW solar power transfer scheme has been prepared and permission has been given for the transfer works.

Renewable Energy

The state government is giving high priority to renewable energy projects in line with the central policy. The state has a cumulative installed capacity of 8826,363 MW. Out of which solar projects are 4132385 MW. The projects have a share of 106.598 MW. The State Government is implementing the Solar Pumps Program with the assistance of that grade from the Ministry of Renewable Energy, Government of India. 32000 Solar Vam sets have been installed for irrigation. A 120 MW grid- connected solar power Urad SIV has been installed on the house roof.

19.3 TRANSPORT SECTOR IN ANDHRA PRADESH

Transport plays an important role in the development of a state or nation by moving goods, services and people from one place to another.The transportation sector consists of several industries including air freight and logistics, airlines, marine, road and rail, and transportation infrastructure. These industries are further broken down into the sub-industries air freight and logistics, airlines, marine, railroads, trucking, airport services, highways and rail tracks, and marine ports and services.

Broadly, transportation facilities can be classified under four types. They are:
1. Road ,
2. Rail
3.Water and
4. Air

Road transport

Road transport is the main mode of transport for all activities in the state, along with buildings Road & Buildings (R&B) Department maintains the following roads.

1) National Highways,
2) State highways, and
3) Main District Roads

By December 2021, the total R&B road network (excluding national highways) in the state will be 46235.10 km. There are limits. Andhra Pradesh state has 52 national highways with a length of 8163.72 km. Of these 2884.34 km are Four lanes and above. A large sum of Rs. 35,000 crore has been spent on doubling the length of National Highways in the last seven years. National highway density in the state is 16.53 km per lakh population (2011) while the all India average is 10.89.20. The state has a total of 14,722 km of state roads and 29% of the total roads in the state are tau. SH 31 (Muddanur to Renigunta) is the longest state highway in Andhra Pradesh. As on 01.04.2021, the total length of rural roads under Panchayati Raj Engineering Department in the state is 3,962 km. m. 5486.07 km of Panchayati Raj Roads have been transferred to R&B Department, out of which about 1800 ! km are BT free roads.

Recent measures to improve road transport by the Government of Andhra Pradesh:

(a) AP State Road Development Corporation

It was established in 1998 to develop and manage roads and other ancillary and incidental activities in the state. Construction and maintenance of roads and bridges on Main District Roads (MDR) and Other District Roads (ODR) is undertaken by the MDRs Wing. The MDR Division maintains a total of 32735.10 km of roads comprising 26634.34 km of major district roads and 6100.76 km of district other roads. Under Tribal (ST) Sub- Plan and SC Sub- Plans – widening of roads from single lane to double lane, construction of roads & bridges in tribal areas and laying of CC pavements in SC colonies, arrangement of approach roads to SC colonies will be taken up. Under the Road Safety Engineering Scheme, works involving road safety interventions, reconstruction of culverts, improvement of black spots on roads, etc., are taken up.

(b) Andhra Pradesh Economic Voice:

Since the inception of NABARD, with funding for rural infrastructure, about 9300 km of village FPST roads have been brought up to riding surface on B7 and nearby towns have been connected under RIDF (Rural Infrastructure Fund) and RIAD (Remote and Interior Area Development) schemes. Under Road Connectivity Project for Left Wing Extremism Affected Areas (RCPLWEA) 46 (30 roads + 16 bridges) have been sanctioned Rs.391.03 crore with central and state funds in 60:40 ratio. Covering four districts viz., Srikakulam, Vizianagaram, Visakhapatnam & East Godavari. With financial assistance from the New Development Bank (NDB), the R & B Department has undertaken two projects at a cost of Rs. 3200 each (Total Rs.6,400 crore) 70:30 sharing (NDB share-70 & State share-30%).

1. AP Roads and Bridges Reconstruction Project (APRBRP)
2. AP Mandal Connectivity and Rural Connectivity Improvement Project (APMCRCIP)

Under the Setu Bharatam scheme (launched on 4 March 2016) to make all national highways railway crossing- free - our state has been sanctioned 22 RoBs. Out of which 16 ROBs (Road V Bridges) have been constructed. 6 tasks are completed

(c) **A.P. Road Sector Project:**

This project has been approved by the Government of India and the World Bank to widen and strengthen and maintain some important and high traffic roads with the aim of smooth travel and reducing the cost of transport. The project cost Rs.2245.00 crore pa closed on 31.03.2019. The State Government has allotted 33.96 acres of land in Kottakota village for the establishment of Rs.185 Koba BadiTR project to Institute of Driving Training & Research (IDTR) project in Kurnool district. This project is undertaken in collaboration with M/ s Ashok Leyland Limited, Chennai. A Driving Training Institute is being constructed near Prakasam District Darshi under the Government of India Scheme IDTR. Rs. 18.5 crore out of Rs. 16.5 crores is being funded by the Government of India and Rs.1.5 crores is being installed by M/ s Maruti Suzuki India Limited. The Andhra Pradesh Road Policy was announced in the year 2015 with a target of 15% annual reduction in road accident deaths. In the year 2021 (January to November), 7,382 people died in 19,223 accidents in Andhra Pradesh. Government of Andhra Pradesh has budgeted Rs.135 crore as revolving funds for road safety fund in 2021-22. Police, Transport and R & B Departments for using road safety fund Various activities have been undertaken for improvement.

(d) APSRTC (AP State Road Transport Corporation) taken over by the Government:

The Corporation initially had 609 buses (16 depots) in 1958 with a staff of 5,081. Now it has 4 zones, 12 regions and 129 depots. A total of 11303 buses and 50406 employees are operational as on December 2021. In 2021-22 till December 2021 the Corporation earned a trading income of Rs.1493 crore as compared to Rs.71.45 crore till December 2020. In 2020-21, the corporation suffered a revenue loss of Rs 2748.34 crore. 2268 in 2021-22 (upto December, 2021). 34 crores slowly improved. APSRTC has set up a 24x7 Central Complaint Cell at PNBS Vijayawada from June-2016 with boll number 0866-2570005 to receive the inquiries and complaints of its customers and engage trained personnel.

(e) YSR Vahana Mitra Scheme

A financial assistance of Rs. 10,000/- per annum to auto/ taxi/ maxi cab drivers who own roads to meet expenses for insurance, fitness certificate and vehicle repairs etc. under this scheme Rs. Financial assistance is provided.

Railway Facilities in Andhra Pradesh State

In the last seven years since 2014, Andhra Pradesh has seen significant growth in railways. The capital investment of rail projects is Rs. increased fivefold from 1196 crores in the eight years ending 2021-22.

- 350 KM new lines and doubling of 437 KM lines completed.
- 1774 KM are electrified.
- 175 manned level crossing gates have been removed.
- Average cargo traffic increased by 74 MTS from 66 million tonnes.
- 73 crores of milk from Renigunta to New Delhi in the name of Dudh Durantho during Covid-19.
- Special trains were started to do this. The Kisan train, the first in South India and second in the country to promote agricultural produce, was launched from Anantapur on 9 September 2020.

New railway lines completed

1. Nandyala -Yarraguntla
2 Obulavaripalle- Menkatachalam
4. Rayadurgam- Kadiri Devarapalle

The work on Nadikudi- Srikalahasti new railway line (308.7 km) with an estimated cost of Rs.2289 crores is in progress. Andhra Pradesh state is connected with three railway zones.

1. Secunderabad is the headquarters of the South Central Railway Zone
2. Bhubaneswar Head Office East Coast Railway Zone
3. Chennai Head Office Southern Railway Zone

Demand for a new railway zone in Andhra Pradesh increased after partition. Andhra Pradesh Reorganization Act. As per Item 8 of Schedule 13 (Infrastructure) of 2014, Indian Railways is to consider setting up a new railway zone in the state of Andhra Pradesh. To fulfill this promise, the central government has announced a new railway division named South Coast Railway with Visakhapatnam as its hub.

The new zone will include existing Guntakal, Guntur and Vijayawada divisions. Waltair 's division was divided into two parts. A part of Waltair Division will be merged into the new zone and will be merged into the neighbouring Vijayawada Division. The South Coast Railway stretches across the states of Andhra Pradesh and Telangana, with small parts of Karnataka and Tamil Nadu. But this zone has not yet started.

Water Transport in Andhra Pradesh

To promote Inland Water Transport (IWT) in the country, 111 waterways (5 existing and 106 new) have been declared as National Waterways (NWs) under the National Waterways Act, 2016 which came into force on 12 April 2016.

1. National Waterway 4 on Krishna River announced on 25/11/2008. Kakinada-Puducherry, Canal, Eickingham Canal connects the Bhadrachalam- Rajahmundry Canal on the Godavari River and the Vazira- Vijayawada 14, (1095 km) on the Krishna River. This applies to Andhra Pradesh, Tamil Nadu, Puducherry and Telangana.
2. NW-79 is 29 km on river Penna.
3. A.P. on NW-104 Tungabhadra River. It connects Karnataka and Telangana with 230 KM.

There are state waterways on Godavari, Krishna and Penna rivers connecting different areas between districts eg: Kakinada Canal, Eluru Canal and Kommamuru Canal are in progress.

Ports in Andhra Pradesh State

Andhra Pradesh has the 2nd longest coastline of 974 km with one major (operational) and 14 non- major (5 operational) ports in eastern peninsular India. Six ports are under PPP mode of development. This coastal area contributes to the economic development of the state. AP is planned to be developed as a logistic hub and a gateway to Southeast Asia. Andhra Pradesh's economy is heavily dependent on the development of coastal districts - which can be further enhanced by developing the blue economy and port- based industrial clusters. By 2035, Andhra Coast has the potential to generate a blue economy of US $ 20 billion.

Andhra Pradesh Maritime Board has been established with a view to ensure rapid development of port sector and overall development of inland and offshore areas linked to port- use and industrialization in port areas. Port Development includes – 4 Greenfield Sea Ports, 4 Coastal Berths, Increasing Jerling Capacities at Existing Ports & Reducing Dwell Time and Smart Port Cities Along with Kakinada SEZ and three non- major ports are under development.

1. Ramayapatnam Port

It is located in Prakasam district, near NH 5 and railway line. Andhra Pradesh government is committed for development of Ramayapatnam port The Government has set up the Ramayapatnam Port Development Corporation Limited. M/ s Navayuga Engineering Company Limited and Aurobindo Reality & Infrastructure (Private Limited) emerged as successful bidders for the development of the port on EPC basis. The project should be completed within 36 months from 30.07.2021 at a cost of Rs.3736.14 crores. 803 acres of land has been enmarked for the port (backup 4000 acres) with an estimated traffic of 24 million tonnes by 2024-25 and a capacity of 25 million tonnes in Phase 1.

2. Machilipatnam port

Machilipatnam Port Development Corporation Limited was established for the development of Machilipatnam Port. The detailed project report prepared by Deep Water Port Development Co. RITES Consultants at Machilipatnam has been approved by the Government. It has given administrative sanction for Rs.5835 crores to undertake the Phase- I works with a complete duration of 36 months. Amended administrative sanction with a project cost of Rs.5155.73 crores. 800 acres of land has been allocated for the port, with a capacity of 35 million tonnes in Phase 1 Estimated traffic is 26 million tons traffic.

3. Bhavanapadu Port

Located in Srikakulam district. It is a fishing harbor. For the development of the port, the AP Government has decided to develop the Port Nevandi Mena Corporation Limited has been formed. The development of Bhavanapadu port has been approved by the administration with a budget of Rs.3669.95 crores. The amount was later revised to Rs.4361.91 Crores for Phase 1 vide GO.Ms.No.8, Dt.17.08.2021 appointing Tata Consulting Engineers as Project Management Consultants for the project. 1010 acres of land enmarked for the port (backup 4000 acres) with a capacity of 15 million traffic by 2024-26 and 25 million tonnes in Phase 1. Narsapur in West Godavari, Meghavaram in Srikakulam, Nakkapalli in Visakhapatnam, Nizampatnam in Guntur and Vadarevu in Prakasam districts are under development.

Airports in Pradesh

Civil aviation plays a major role in the economic development of the state. Employment generation and tourism in the region will cause industrial development.

Andhra Pradesh Civil Aviation Policy, 2015:

As per the Andhra Pradesh Civil Aviation Policy, 2015 the government encourages private participation. Government is undertaking various initiatives such as providing financial incentives to regional/ national airline operations and other aviation infrastructure, bridging the gaps in financing based on the Viability Gap Funding Scheme. It is decided to develop new greenfield airports in the state and improve air connectivity and economic growth. To upgrade the existing airstrips into low cost airports. The state currently handles 1.6% of India's total passenger traffic.

Andhra Pradesh Airports Development Corporation Limited (APADCL)

Formerly Bhogapuram International Airport Corporation Limited -BIACL is an SPV formed under the Companies Act 2013 and owned by 100 GoAP. It was formed on 20/5/2015. Its name was changed on 24/11/2017. APADCL is the goral agency to facilitate and improve aviation infrastructure in the state. It is a project proponent to develop four greenfield airports.

1. Bhogapuram (Vijayanagaram district) near Visakhapatnam

The project area is about 2631.63 acres. The estimated cost of the project for Phase- I is Rs.230251 crores. Capacity under Phase – 1 6Mppa and Phase II 12Mppa and Phase III 18Mppa.

2. Dagdarthi (Nellore District)

The project size is 1380 acres, the total project cost of the project is Rs.1499.17 crores, in which GOAP will bear the LAR & R costs including the connectivity cost and the developer to meet the project development CapEx,

3. Airport at Orvakallu (Kurnool District).

The project is being developed in 1032 acres under EPC method. Rs. 180 crore was spent on the project which was fully funded by GOAP from budgetary allocations and loan guarantee to Andhra Pradesh Development Corporation (APADCL). The airport received DGCA aerodrome license on 15/01/2021 for public use.

Airlines will begin operating flights from 28 March 2021, claiming that it will be the first airport in South India to be fully developed by the state government of Andhra Pradesh.

4. Kuppam (Chittoor DT)

Kuppam Airport (Domestic Airport) is a public airport under construction at Kuppam, in the state of Andhra Pradesh, India. The greenfield airport will be built by the Infrastructure Corporation of Andhra Pradesh Limited (INCAP). The airport is to handle Passengers and cargo operations. The project site is located at Shantipuram mandal, about 25 km (16 mi) from the proposed eight-lane Chennai–Bangalore Expressway, and will be built at an estimated cost of Rs. 100 crore (equivalent to Rs. 134 crore or US$17 million in 2023) in 1,000 acres.

Tirupati Airport was granted International Airport HUDA in October 2015 by the Ministry of Civil Aviation. A.P. The expansion of the airport was undertaken as per the provisions of the Reorganization Act, 2014. Kadapa Airport was inaugurated on 7 June 2015 by Air Pegasus airline with scheduled flight from Bangalore to Kadapa and Kadapa to Bangalore.

19.4 INFORMATION TECHNOLOGY AND E-GOVERNANCE:

The State Government of Andhra Pradesh has a clear vision for the comprehensive development of the State. Vision-2020 states that the government's policy is to achieve rapid development through the widespread use of information technology, making the state a knowledge society, a feature in this information age, and information technology is used as a tool to achieve leadership. To achieve this vision, the Government has been introducing IT Policies and procedures from time to time.

2002 First I.T. Procedure

The state government of undivided Andhra Pradesh first announced an Information Technology Policy in 2002. The objectives of this policy are:

- Using information technology as a tool to achieve economic development: increasing investment, employment, exports
- Human resource development through quality education
  Providing good governance
- It was during this period that the construction of hi- tech city and cyber city started in Hyderabad.

Another information technology policy was announced for the period 2005-10 and included broadband connectivity, hardware manufacturing, I.T. Special economic zones and poverty alleviation were given priority. I.T. National and international seminars, workshops and exhibitions are organized to attract the attention of the industry. Towns like Warangal, Visakhapatnam and Tirupati have also been identified to be gradually developed as IT hubs. The new IT policy for the period 2010-15 was announced on July 1, 2010. in Information Technology. Based on the national goals set by Nasscom for the information and communication technology sector, the Government of Andhra Pradesh has decided the following goals to be achieved for this sector in the state by 2015. 'I.T. Exports - Rs. 70,000 (US $ 15 billion), Assumed annual growth rate of 17% ; 1.25 lakh new special jobs to be created; 5 lakh indirect jobs to be created
IT in the state

Incentives

Various incentives have been announced for setting up companies as follows.

- Exemption from Andhra Pradesh Pollution Control Act and power cuts for all BATI/ BTI units except generating sets.
- From the inspections carried out under the following laws, I.T. Exception for industry. Eg: Factories Act 1948, Maternity Benefit Act, 1961
- Minimum Wages Act, 1948, Employment Exchanges (Prohibition of Vacancies) Act, 1980 etc.
- ITITES companies to work in three shifts, general consent for women to work in night shifts
- ITITES companies to identify non- hazardous hardware manufacturing industries under the Andhra Pradesh Emergency Services Act
- 100% refund of stamp duty, transfer duty, registration fee paid on first transactions on sale/ lease deeds. This exemption does not apply to allotment of Government places. Refund of 50 percent of fees paid on second transactions as above.
- Applicability of industrial electricity classification

- 25 percent subsidy on electricity bills for 3 years from the date of commencement of commercial transactions of the company or subsidy up to Rs.30 lakh whichever is earlier.
- 50 per cent subsidy payment for participation in national and international exhibitions subject to 9 square meter space limit.
- I.T. Organizations like Exporters' Associations, NASSCOM, ITC etc. are involved in IT related research, markets..etc.
- Special incentives for start- up companies, small and micro enterprises and special assistance for SC, ST and women activists have been announced.
- After the bifurcation of the state, the blue print for the new policy was announced in August 2014 in view of the future requirements of the new state.
- In August 2014, the new Andhra Pradesh state government created a blueprint for information technology policy. It has been named "Imagining Andhra Pradesh- Code of e- Governance, Electronics and Information Technology".

Andhra Pradesh State IT Policy 2021 – 2024:

The Government has strengthened the Electronics and Information Technology Agency (APEITA) to promote the state of Andhra Pradesh as a priority destination. Government of Andhra Pradesh launched Information Technology (IT) and IT Services (ITES). Electronics has also been identified as a priority sector. Local employment opportunities can be created. The vision of the policy is "to make ITE & C Department a revenue center and IT/ ITES" to create large scale local employment. and public data with a specific focus on innovation and emerging technologies. Making the ITE & C Department a revenue self- sustaining department Creating an industry- ready talent pool and demand for skilled IT manpower Facilitating the creation of co- working space and satellite centres.

Promoting state- of- the- art and emerging technologies like quantum computing, Artificial Intelligence (AI) / Machine Learning (ML), etc. Giving a boost to the "gig economy" by supporting freelancers in the IT space. Faster approval of investment proposals and reduction in time to start. 10 investment proposals have been received in the IT sector. With an investment 500 crores for a period of 2 to 5 years to provide 20,000 employment opportunities. There are 15 investment proposals under ESDM sector. Proposals made ready to create 25,000 jobs with an investment of INR 4,000 crore over the next 3 years. Government of Andhra Pradesh organized CXO Round Table in Vijayawada on 2nd April 2021. More than 700 attended from industry active participants, leaders, entrepreneurs, venture capitals and information technology electronics manufacturing sectors.

IT infrastructure

Creation of concept cities in 1000 to 2000 acres are under construction in Visakhapatnam, Tirupati, Anantapur. The Department of Communications (ITE&C) intends to develop a signature IT tower on an area of 20 acres in Visakhapatnam. Sub-Urban in Vijayawada was earlier known as Medha Towers with 2 lakh sft for the existing facility. Providing 2,500 seats, plus expanding another 10 lakh S.F.T created more than 15,000 jobs The first scheme sanctioned by the Government of India under EMC 20 was inaugurated by the Chief Minister on 23rd December 2021 at YSR EMC, Kopparthi spread over 500 acres. Providing employment opportunities, superior infrastructure to more than 25,000 people with an investment potential of over INR 8,000 Crs.

e- Governance

E- Governance is the process of improving all kinds of public administration services through extensive use of information technology in government administration. It is a prominent part of the government's IT policy with e- Governance as its main objective to establish a SMART government in Andhra Pradesh.

The software industry has been unique in the global information technology landscape for the past four decades Navana brought a paradigm change. Innovation, analytics, cloud services, social awareness, "Internet of Things" etc. are gaining importance in recent times. E- Governance helps to increase transparency and accountability in governance by using modern information technology tools and skills with such revolutionary changes in the governance process and providing citizen services cheaply and quickly. Moreover, it also helps in economic development and strengthening of the population.

Objectives of e- Governance

- To introduce transparency and accountability in governance.
- To increase efficiency and productivity in government operations.
- To increase public awareness of development programs by disseminating information and encouraging public participation.
- Empowering people through right to information and dissemination of information.
- Eradication of corruption in the governance system in the implementation of government policies, development programmes, welfare schemes, the prevalence of brokers, extortion, harassment, creation of fake documents and in order to provide public services.
- Providing transparent, fast, cheap and quality civic services.
- To enable decision- making at various levels of government to be based on reliable and adequate information.
- Establishing legitimacy and credibility of government/ public institutions,
- Increasing effective control over government assets, revenue and expenditure.

19.5 URBANIZATION AND SMART CITIES

AP is rapidly urbanizing with a growth rate of 7% in the last decade, accounting for nearly 30% of the state population in 2023. A strong correlation exists between urban population and economic growth, higher the urban population, greater is the economic growth due to agglomeration of resources, both physical and human. This calls for greater emphasis on improving living conditions and factors aiding economic growth in urban areas.

Urban development in AP encompasses the provision of employment opportunities, affordable housing, reliable and convenient services, clean and green environment, as well as building accountable and financially strong Urban Local Bodies (ULBs). The goals of urban development in AP is to achieve a better quality of life and social inclusion for all urban residents, a higher rate of urbanization driven by industrialization and improvement of productivity, and sustainable urban growth. The goals of urban development in AP is to achieve a better quality of life and social inclusion for urban residents, a higher rate of urbanization driven by industrialization and improvement of productivity, and sustainable urban growth that protect fertile lands and environmentally sensitive areas.

The vision statement for urban development in Andhra Pradesh is **AP cities of 2029 will be Productive, Inclusive, Sustainable, Smart and Well-governed:**

THEME	INITIATIVE
Productivity	• Growth-Pole & Industrial Node Strategies • State coordination in infrastructure and industrial investment • Skill training for urban residents and migrants • Improve and expand urban High level of unemployment rates and road networks
Inclusiveness	• Integration of slum into city development • Smart Region Authority • PPP model in service delivery • Improve and expand to 100% coverage for water supply, sewerage, drainage and solid waste collection systems
Sustainability	• Growth-pole Strategy position 3 major urban regions in low-risk locations • Disaster management plan for ULBs • State-level coordination in land use and environmental protection • Innovative solutions for solid waste management • Improve and expand to 100% treatment level of sewerage, solid waste systems • Building urban public transport systems for all Class-I cities
Smart	• Integrated GIS-based Urban Data Hub • Smart City development framework for AP cities • Expansion of information hub / Mee-Seva centers to efficiently provide information and governmental services
Good Governance	• Strengthening ULBs politically and financially • Reforms of revenue generation systems • Improve land inventory through planning and management to employ PPP models

Smart Cities of Andhra Pradesh

India is accelerating its development to catch up with the advanced nations. Implementing the smart city mission is one of those initiatives. The best amenities will be available to residents of an intelligent city in India. A smart city uses information and communication technologies (ICT) to boost administrative effectiveness. It also employs ICT to publish information to the general public and enhance the standard of public services. The success of a smart city depends on its capacity to forge a solid alliance between the public and private sectors. This includes matters concerning bureaucracy and rules. Most of the work required to establish and maintain a digital, data-driven environment is done outside the government.

A smart city in India will provide its residents with the best amenities possible. The idea behind a smart city is to make the most of modern technology. The ever-growing urban population benefits from this. This includes improved social services, garbage collection, and utility supply. Technology is interconnected with mobility, environmental management, and law and order. Most locations in India's smart cities list aim to promote sustainable living. It makes wise use of the available land. The Indian government set an initial goal of 100 smart cities. This project is almost finished. India's initial list of 100 smart cities covers nearly every corner of the country. Implementing this plan is the responsibility of the states and union territories.

As for Andhra Pradesh, four smart cities are identified under the smart city mission.

- Amaravati
- Kakinada
- Tirupati
- Vishakhapatnam

One of the major goals of the initiative is to boost the smart city transformation process while enhancing city management and providing extended smart services to both visitors and residents. The cities are being planned as a sustainable, livable community that will offer its citizens a high standard of living. The city is being transformed into a knowledge hub emphasizing innovation and technology.

19.6 SUMMARY

Infrastructure includes all essential systems and facilities that allow the smooth flow of an economy's day-to-day activities and enhance the people's standard of living. It includes basic facilities such as roads, water supply, electricity, and telecommunications. Public infrastructure refers to infrastructure facilities, systems, and structures that are developed, owned, and operated by the government. It includes all infrastructure facilities that are open to the general public for use. Especially in light of the massive societal transformations needed to mitigate and adapt to climate change, contemporary infrastructure conversations frequently focus on sustainable development and green infrastructure. Acknowledging this importance, the international community has created policy focused on sustainable infrastructure through the Sustainable Development Goals, especially Sustainable Development Goal 9 "Industry, Innovation and Infrastructure".

19.7 KEY WORDS

1. **Society for Andhra Pradesh Network (SAPNET)**

To promote distance education using satellite based communications, telemedicine, agricultural extension, e- governance, self help groups and human resource development. SAPNET operates electronic visual media channels- MANA TV 2 and AP Prime TV, 4759 ROT Receive only Terminals), 13 Satellite Interactive Terminals (SIT) across Andhra Pradesh.

2. **Pragati**

E- Pragati is a digitized and socially transformed single access point provided by the government to all citizens and businesses of Andhra Pradesh. Examples include the following.

The monthly stipend for YSR Law Nestham Junior Lawyers for the first three years is Rs. 5000/- APOLIS Project- Automate Departmental Back Office Operations for AP Police A Dorava Department of Education - Providing drop out services at various levels to find out the causes of drop out, to develop the baseline data of the education system in the entire state.

3. **International Institute of Digital Technologies (IIDT)**

Established in the year 2017 to train students in high- end technologies for agencies/ corporates, IIDT's mission is to prepare 'professionals and entrepreneurs for the digital future'. IIDT M runs Post Graduate Programs (PGP) in Security, Artificial Intelligence, and Data Sciences. So far six batches have been trained.

4. **Smart City:**

Smart cities use innovative methods of design and implementation in various sectors of infrastructure and planning to create communities that operate at a higher level of relative sustainability than their traditional counterparts.

5. Andhra Pradesh State Wide Area Network (APSWAN) :

Andhra Pradesh State Government Secretarial Offices, District Collectors Offices 12 M.B.P. S. Andhra Pradesh State Wide Ya Network (APSWAN), a state- wide information communication system established by connecting through optic portal, through this system, central-1, data nication 2 voice communication facilities have been established for the offices of the state secretariat and district collector. Under the new G20 SWAN Scheme has been arranged. Project's Brum- Live has been announced since 2611.2010.

19.8 SELF ASSESSMENT QUESTIONS

Essay type questions:

1. Critically Analyze the status of Power sector in the State of Andhra Pradesh
2. Analyze about the various transport facilities in Andhra Pradesh
3. Briefly explain the policy of IT in Andhra Pradesh

Short Answer questions:

1. Power Sector Govt. Schemes
2. National LED programme
3. AP Green energy corporation
4. Road transport in AP
5. Water transport in AP
6. Air transport in AP
7. Urbanization in AP
8. Smart cities in AP

19.9 SUGGESTED READINGS

1. Socio Economic Survey Report of Andhra Pradesh, 2023
2. Andhra Pradesh Economy, Telugu Academy, 2023
3. Mahendra dev, “Human Development in Andhra Pradesh”, CESS, Hyderabad, 2009
4. A.P. Reorganization Act, 2014
5. Mishra and Puri,”Indian Economy”, Himalaya Publishers, New Delhi, 2021

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LESSON– 20

EMPLOYMENT, SKILL DEVELOPMENT AND WELFARE PROGRAMMES IN AP

Aims and Objectives:

After completing the Chapter, the student is able to demonstrate the following topics:

- ✓ What is the nature of unemployment in Andhra Pradesh
- ✓ What are the various initiatives of Govt of AP for Employment generation
- ✓ What are the various initiatives of Govt of AP for Skill development
- ✓ What are the various Welfare programmes introduced in Andhra Pradesh in recent past.

Structure

20.1 Introduction
20.2 Employment in Andhra Pradesh:
20.3 Employment Generation and skill enhancement Initiatives in AP
20.4 Welfare Schemes in Andhra Pradesh – at a Glance
20.5 Summary
20.6 Glossary
20.7 Self Assessment Questions
20.8 Suggested Readings

20.1 INTRODUCTION

Mahatma Gandhi(1948) reflecting the humanist perspective of development approaches and strategies in which he discussed the welfare of the weakest, poorest, and most impoverished people and suggested the way for the emergence of India as a genuine 'welfare state'. The Government of India jointly with the State Government implements a number of employment creation schemes along with the social welfare schemes for the poor and deprived to receive direct benefits. Women, tribals living in geographical distant areas, people from disadvantaged castes and the economically vulnerable category, who do not have substantial source of income are mainly dependent upon these schemes to support their livelihoods. In this background the present chapter through a light on the various issues relating employment schemes, skill enhancement initiatives and Welfare schemes introduced by the Government of Andhra Pradesh.

20.2 EMPLOYMENT IN ANDHRA PRADESH

The survey of National Sample Survey on the employment and unemployment are the primary sources of data for various indicators of labour force. The data issued for planning, policy formulation, decision (making and act as an input for further statistical and planning exercises by various government organizations, academicians, researchers and scholars. NSS surveys on employment and un-employment with large sample size of households have been conducted quinquennially since 27th round onwards. Nine such comprehensive surveys on employment and unemployment were conducted so far by NSSO, the latest being the one conducted during NSS 68th round (July 2011-June 2012).

Considering the importance of availability of labour force data at more frequent intervals, the Ministry of Statistics and Programme Implementation, on the recommendations of the National Statistical Committee (NSC)constituted a Standing Committee on Labour Force Statistics (SCLFS). The SCLFS recommended Schedule of Enquiry and Sampling Design for the Periodic Labour Force Survey (PLFS) to produce annual estimates of employment and unemployment characteristics for both rural and urban areas along with quarterly estimates for urban areas. In May 2019, the First Annual Report was prepared based on the data collected and it presents the estimates pertaining to various aspects of employment and unemployment at National as well as State level. The latest report by PLFS is for the year 2020-21.

20.2.1 Labour Force Participation Rate

Labour force or in other words, the "economically active population", refers to the population which supplies or seeks to supply labour for production and, therefore includes both employed and unemployed persons. The Labour Force Participation Rate (LFPR) is defined as the number of persons in the labour force per 100 persons.

LFPR= (No. of employed persons + No. of unemployed persons)/Total populationx100)

The PLFS Survey reveals that nearly 48.4 % of the AP State's population (All age groups) is in labour force. The participation, however, is better in rural areas (51.6%) as compared to urban areas (41.9%). The lesser (although better than India) overall Labour Force Participation Rate (LFPR) in AP was primarily due to lower LFPR for females, which was 36.1% only. However, when compared to All India (25.1%), the LFPR for females is fairly higher in the AP state. LFPR is substantially low for females across all age groups as compared to males. Although the job market offers relatively fewer opportunities for females as compared to males in rural areas, the situation is grim in urban areas also.

The youth in the age-group 15-29 years presents an intriguing picture. The possible reasons for low labour participation of females in urban areas, especially in the age group 15-29 years could be non-availability of suitable work due to higher levels of education, lack of flexibility in work timings and proximity of workplace to their households in urban areas. Even if this significant shortfall in female labour force participation in urban areas could be construed as rising enrolment in higher education, a rise in open unemployment among educated youth shows that the job market could not accommodate the fit educated youth.

20.2.2 Work Force Participation Rate (WFPR/WPR)

Persons who are engaged in any economic activity in a given period (i.e. employed) constitute the workforce. The WPR is the percentage of persons employed among the persons in the population. The WPR is based on the current daily status. As per the current daily status, a person is considered working (employed) for the entire day if he/she had worked for 4 hours or more during a day.

WPR=No. of Employed Persons / Total Population X 100

PLFS survey revealed clear-cut gender differences in Work Participation Rates (WPR) both in Andhra Pradesh and All India level. WPR among young (15-29 years) is lowest both in Andhra Pradesh and all India level and this is generally true for rural and urban areas but more prominently in case of urban females (17.9% as compared to 32.9% in rural areas). The relatively higher work participation rates of females in rural areas could be due the livelihood and employment generating works like MGNREGS. One solace in this regard for the AP state is that the Work Force Participation (WPR)for females in all age groups(40.8%) is high in Rural areas than of the Country(27.1%).

20.2.3 Unemployment Rate:

Persons are considered unemployed, if he/she was not working, but available for work for a relatively period. Unemployment Rate is defined as the percentage of unemployed persons in the labour force. This gives the unutilized portion ofthelabour-force.

Unemployment Rate=No. of unemployed persons / (No. of Employed + Unemployed persons) x 100

The unemployment rate is slightly lower in AP (4.1%) as compared to India (4.2%). Unemployment is highest in people aged between 15-29 years and as age advances, the problem appears to cease. One reason that could be attributed is the inclination among the young adults towards education. It may also sound reasonable to presume that higher levels of unemployment rate in this age-group are probably spending time unemployed in wait of their desired job commensurate with the educational qualifications and pay expectations. The relatively lower levels of unemployment among females in rural areas after the young age (15-29years) could be that they have opted for employment of their choice to augment their family income, having waited till such time after completing basic education, getting married and giving birth.

20.3 Employment Generation and skill enhancement Initiatives in AP:

In this light of above status, the Government of Andhra Pradesh has been taking number of initiatives to increase the level of employment in the state. Some of such initiatives have been submitted in the following pages.

1. **Employment and Training**

The Department of Employment and Training trains the unskilled into skilled trainees so as to meet the demand of the Industry. Several schemes, both of the State and Union government are being implemented for various training programmes for students of ITIs and Polytechnics and training of apprentices in the industry by utilizing the facilities available therein. The following are some of the important schemes.

(a) Craftsmen Training Scheme

The Craftsmen Training Scheme aims to ensure a steady flow of skilled workers in various vocational trades to meet the manpower requirements in industries to raise the industrial production quantitatively and qualitatively by systematic training of workers. There are 84 Government and 433 private ITIs functioning in the state. The admitted trainees will be imparted technical training in various trades as per the Director General of Training (DGT), New Delhi norms and syllabus with 80% of practical training and 20% theory. 46,927 students were admitted in ITI of them 16,041 in government institutes and 30,886 in private institutes.

(b) Jagananna Vidya Deevena and Vasathi Deevena.

ITI students are covered under State Govt. scheme "JagannaVasathi Deevena" in which students of SC, ST, BC, Minorities, Kapu, EBC and Differently-abled categories who are studying ITI (Both Govt. and Private ITIs) will be paid an amount of Rs. 10,000 per year which will be deposited in the student Mother Bank Account. An amount of Rs. crores was paid to 36,083 beneficiaries.

(c) Skill Hubs

Skill Hubs are established in 32 Govt. ITIs with the collaboration of industries. The objective of skill hub is to train unemployed youth and college drop outs to meet the local industry demand and to uplift livelihood and mainstreaming back to education and employment or entrepreneurship. 599 trainees have completed training and 1332 are undergoing training.

(d) Establishment of new Govt. ITls for Minorities

Govt. of AP has accorded administrative sanction for the establishment of two ITls for Minorities at Adoni and Rayachoti at first instance, with an estimated amount of Rs. 861.60 lakhs to meet the recurring and non-recurring expenditure.

(e) Apprenticeship Training Scheme

The Ministry of Skill Development and Entrepreneurship is responsible for implementation of the Apprentices Act, 1961, which was enacted with the objective of regulating the program of training of apprentices in the industry by utilizing the facilities available therein for imparting on- the job training. Under the scheme, 25% of the prescribed stipend subject to a maximum of Rs.1500/- per month per apprentice to all apprentices is shared with the employers and the cost of basic training with Basic Training Providers (BTP) is shared up to a maximum of Rs.7500 per trainee. 6553 establishments are registered in Portal and 8175 candidates are registered. 1391 students of 30 ITIs have got on the Job Training in 91 Industries in 14 different trades.

(f) Dual System of Training

154 different Industry partners have made MoU with 81 Govt. ITIs in 18 trades for conducting Dual system of Training in which students studying ITI course spent half of their course duration in Industry, which enables the students on the Job training and enhances their employability.

(g) Skills Strengthening for Industrial Value Enhancement (STRIVE) Scheme

This is a Central Sector Scheme assisted by World Bank with the objective of improving the relevance and efficiency of skills training provided through ITIs and apprenticeship. The STRIVE is a five year project implemented by MSDE (Ministry of Skill Development and Entrepreneurship) through State. Under the scheme 15 Govt. ITIs have been selected in the state. An amount of Rs. 1550 lakhs was released by Gol under 1st phase for the up gradation of infrastructure in the selected ITIs.

(h) National Career Service (NCS)

Under the Centrally Sponsored Scheme of Transforming Employment Exchanges into Career Centers, the Gol aims to transform Employment Exchanges into career centers. The objective is to assess the demand of skills in labour markets, provide guidance to youth on job opportunities as per their attitude and potential, connecting youth and other job seekers with jobs through job fairs. In its endeavour to Interlink the Employment Exchanges, Government of India released an amount of Rs 152 lakhs as one time grant towards basic IT infrastructure to improve the accessibility of the NSC services at the employment exchanges.

2. **Andhra Pradesh State Skill Development Corporation**

Andhra Pradesh State Skill Development Corporation (APSSDC) is constituted as a not-for-profit Public-Private Partnership (PPP) Corporation to promote Skill- Development & Entrepreneurship. The Corporation acts as a Single Umbrella for all the skill development initiatives in the State. The key activities of the APSSDC are enhancing the employability skills of students to make them job ready, offer placement linked industry relevant short term skill development courses to unemployed youth and Link up Job seekers with employers through job fairs etc.

APSSDC has trained more than 8.08 lakh candidates in the last three year (since 2019) under which 6.45 Lakh are students who have been provided industry aligned certification and 1.63 lakh are unemployed youth with sustainable employment

Skill Initiatives

Cascading Skill Ecosystem

The State has initiated a holistic strategy to improve access and quality of the skill development initiatives has been taken up through a cascading skill ecosystem model with a coordinated approach involving multiple stakeholders such as Departments of Employment & Training, Technical Education, Collegiate Education, SEEDAP, NAC etc effectively using the the existing State Govt. Infrastructure such as Govt. ITI, Polytechnic, Degree colleges, IIITs, TTDCs, YTC, and Central Govt. infrastructure such as CEMS, MSME, IITTM etc. Every institute in the cascading skill ecosystem has been mapped to an industry.

The transformed skilling ecosystem comprises of the following:

Skill Hubs: Skill Hubs is a legislative assembly constituency unit that shall cater to the demands of local industries to impart skill trainings of National Skill Qualification Framework (NSQF Level) 1-4 courses to the school & college dropouts and ITI & Polytechnic pass outs. 177 Skill Hubs are inaugurated and 3000+ candidates are under training.

Skill Colleges: 26 Skill Colleges are high-end institutes that offer advanced courses to ensure placements with high package of salary. 13 Skill Colleges are commenced and 720 candidates are under training. Each college offer trainings in NSQF Level 5 and above courses with focus on emerging industrial trends and technologies, Key focus will be on the recently passed out graduates looking for the employment.

Skills University: A state level institution that will oversee the functioning of skill colleges and skill hubs. In addition, Skill University will accommodate the research and skilling activities. APSSDC has been instructed to work on the skill university model. Land has been identified at Kobaka, Tirupati and modalities are being explored

Skill Spokes: Industry Spokes are the industries which can train job aspirants within their premises or any Private/Govt. building by using their in-situ resources and offer placements. Through these, industries can skill candidates gain the practical know-how to match theories with a holistic view of the specializations. They also cover the aspects of building, designing course curriculum, operating, and providing placements. 33 Industries are ready to collaborate with APSSDC.

Skill International: Govt. of AP is planning to undertake skills development initiatives to tap the international/ overseas placement opportunities in identified priority sectors. To create an internationally benchmarked quality skills ecosystem and provide global career opportunities, APSSDC is reaching out to major industry partners and international institutes who can partner with AP Govt. and support overall framework and also working in convergence with National Skill Development Corporation - International (GOI), OMCAP, and APNRTS to plan the training's as per the global requirement. The specific focus has been on regions like the Middle East, the European Union, Australia, Canada, Japan and USA.

Skill Training Programs for Students

Employability Skill Centres (ESCs): Labs established across 525 Degree Colleges with a focus on improving the employability quotient. 18,262 candidates have been trained on "Campus Recruitment Training in FY 2022-23.

Engineering College Programs: 102 CM's Excellence centres aiming at offering skill trainings to the students pursuing technical education have been established. 14,536 candidates have been trained in various industry certification programs in FY 2022-23.

Dassault Systemes: APSSDC in collaboration with Dassault Systemes, established 64 3D Experience Centres (including 1 CO Eat ANU) to train the students in courses of Aerospace, Automotive and Ship Building domains.

Labs through CSR: High-end labs established in 20 ITI colleges with CSR support from industries. Companies like Hitachi, Schneider, Jaquar etc. have collaborated with APSSDC.

Applied Robotic Control (ARC): An initiative taken by APSSDC-ECM convergence centres. APSSDC is the implementing partner where European Centre for Mechatronics, Germany is the knowledge partner and IES Germany/India is executing partner across the state.

Skill Training Programs for Unemployed Youth Electronics System Design and Manufacturing (ESDM) is the scheme under Ministry of Electronics and Information Technology (MeitY) for offering skill trainings in electronic sector. APSSDC has been designated as state implementing agency under ESDM. Jal Jeevan Mission is Government of India's initiative that has been designed to build capacities of the frontline workers/employees working under RWS dept. for ensuring quality services in terms of water supply and sanitation. APSSDC has been designated as implementing agency for these trainings. The job roles for training are Assistant Mason, Assistant Plumber General, Plumber General, Fitter and Electrician.

SANKAP, MSDE, GOI: Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) project aims at establishing robust monitoring and evaluation system for training programs, providing access to skill training opportunities to the disadvantaged sections and most importantly supplement the Make in India initiative by catering to the skill requirements in relevant sectors. APSSDC has been designated a nodal agency for implementing SANKALP scheme in AP State.

National Fisheries Development Board (NFDB): With an objective to promote upliftment of fishermen community, NFDB, GOI has issued training target APSSDC to conduct a 3-day skill development program for fish farmers/fisher/fisher women.

Trainings to under privileged: Demand driven skill trainings were offered to SC youth with an objective to uplift their living standards through sustainable employment.

Jobs Facilitation: APSSDC organizes various kind of job drives by bringing both industries and candidates on the same platform to enable them to choose right candidates/jobs as per their needs/aspirations.

3. **National Academy of Construction**

National Academy of Construction was established in 1998, by the Government of Andhra Pradesh, as a Society. It is managed by Board of Governors consisting of Secretaries to Government of Andhra Pradesh, Heads of Research Institutions and Members of Academic institutions and the Builders Association of India.

4. **Placement Linked Unemployed Youth Training Programs:**

The Objective of this "Placement Linked Skill Development Training" programme is to inculcate the beneficiaries/candidates with sufficient knowledge on Technical know-how, with regard to the tools & tackles, & methods of modern technical aspects by inculcating sound knowledge of the Course they have opted for and providing employment assistance for betterment of their livelihood under the sponsorship of APSSDC and SEGED in Andhra Pradesh for unemployed youth in the state of Andhra Pradesh.

5. **Recognized Prior Learning Programme (RPL)**

Jal Jeevan Mission: The objective of this programme is to enhance the skills of the workers with latest Skills of the competitive world and make them ready for handling new techniques & methods by optimizing their work hours for the work force of RWS&S Department under the sponsorship of APSSDC.

20.4 Welfare Schemes in Andhra Pradesh – at a Glance

Welfare refers to assistance programs sponsored by governments for needy individuals and families, including schemes, such as food stamps, health care assistance, and unemployment compensation. These welfare schemes are typically financed through taxation. Accordingly, welfare denotes the range of government programs providing financial or other assistance to individuals or societal groups who cannot support themselves. Qualification for benefits depends upon several factors, including family size and income levels. Welfare programs are usually funded by the taxpayers and enable people to overcome financial stress during the rough periods of their lives. Mostly, people using welfare will get a biweekly or monthly payment. The goals of welfare can be promoting work, education, or providing a better standard of living. The welfare schemes of the Government Andhra Pradesh aim to improve individuals' lives. This will be done by providing high-quality education and healthcare, increasing agricultural and allied products, and developing electronics and IT. In today's article, we will discuss AP Government Schemes List that was promised in Navaratnalu by YSR Congress, especially in the 2020-2021 budget.

YSR Amma Vodi Scheme

- This scheme aims at education as it not only helps poor people financially but also encourages parents to send their children to school as well. The Chief Minister of AP declared Amma Vodi to the citizens of the state.
- Improvement in the scheme can be seen in the increasing number of beneficiaries every year. According to the government, more than 300,000 new students were admitted into schools as a result of the Amma Vodi scheme.
- This scheme helps students financially. The government said recipients would get Rs. 15,000 annually. Children from class 1st to class 12th are all eligible for the assistance provided by this scheme. The award will be deposited in the applicant's mother's bank

account. Only those with White Ration Cards may apply. This bonus requires 75% attendance.

YSR Rice Card

- The execution of the rice card programme to provide grains to BPL category members has been concluded.
- Applicants that fall under the category of being financially disadvantaged will also be given the opportunity to participate in this initiative.
- Rice will be available to those who are eligible for this program at a cost of Rs. 2 per kilogram and may be collected from any registered ration store in the state.
- The execution of this plan has been carried out in order to provide those in need with food security.

YSR Jagananna Vidya Deevena Scheme

- Similar to the Amma vodi plan, the YSR Jagananna Vidya Deevena Scheme Scheme is built on encouraging education.
- It is also intended for pupils from economically disadvantaged segments of society.
- The plan specifies that the Andhra Pradesh government would repay the participants' complete tuition fees if their annual family income is less than or equivalent to Rs. 2.5 lakhs.
- Beneficiaries of the scheme will get complete tuition fee reimbursement from the Andhra Pradesh authorities if their annual family income is either less than or equal to Rs. 2.5 lakhs, as stated in the program's description.

YSR Arogya Asara Scheme

- The YSR Arogya Asara Scheme is related to the health sector. Getting care through the YSR Arogya Asara Scheme is expensive for people who are in financially weak groups.
- Patients can get a cash stipend when they leave the hospital because of a new program that the Chief Minister came up with and put into action.
- For the purpose of covering the beneficiary's post-treatment costs, the payment of 5000 Indian Rupees will be transferred into their bank account.
- Beneficiaries may use the money toward the cost of further medical examinations and the purchase of necessary medications.
- It has been brought to the attention of the state administration that the successful completion of this project would be advantageous to about 4.5 lakh applicants.

YSR Navasakam Scheme

1. A welfare scheme was launched in AP state, especially for people in rural areas. The government of the state realized that people who live in rural areas don't always get the chance to benefit from social and financial welfare projects.
2. It happens because people don't have the right facts. When the YSR Navasakam Scheme is put into place, this will stop.
3. Under this project, twelve different plans have been made. Volunteers in rural areas will get information about the people and make a list of the people who should get the money. Once the list is done, the state will give the applicants new cards for the scheme. It will also help the government keep track of the information about the people who get help.

Scheme YSR Vasathi Deevena

- Andhra Pradesh has established another educational welfare plan for hostel kids.
- Under Vasathi Deevena, the state would provide recipients Rs. 20,000 annually.

- This money may be used to pay hostel fees and other costs. The state has allotted Rs. 2300 crore for this project. The award goes to the applicant's mother.

YSR Law Nestham Scheme

- December was National Lawyers Day. In 2019, the Chief Minister introduced Law Nestham.
- The program targets young attorneys and advocates. The plan states that participants would get Rs. 5000. State government will fund the program.
- The Chief Minister said monthly aid would be provided. Only Bar Council-registered candidates may apply. If the applicant has a vehicle, they won't get this benefit.

YSR Matsyakara Bharosa Nestham

- The chief minister also introduced a new fishing strategy in October 2019. The Department of Fisheries of Andhra Pradesh is in charge of the scheme.
- Under YSR Matsyakara Bharosa Nestham, registered fishermen would get Rs. 10,000 annually.
- Their bank accounts will be credited. During the no-fishing time, Rs. 4000 is added. The state will subsidize 50% of fishermen's fuel.
- In order to ensure that this program is carried out without a problem, the Chief Minister of the state has already allotted Rs. 720 crores from the available state finances.

Sports Incentive scheme

- The Chief Minister of Andhra Pradesh ordered the Sports Incentive Scheme to encourage of sports. Talented athletes who have won national medals will earn grants when this system is implemented.
- The benefits will promote real sportsmanship. The money will be deposited through Direct Benefit Transfer.
- First, second, and third place winners will get Rs. 5 lakhs, Rs. 4 lakhs, and Rs. 3 lakhs. Junior athletes get 1,244,000, 75,000, and 50,000.

Scheme of YSR Nethanna Nestham

- The chief minister introduced the Nethanna Nestham Scheme in an effort to improve the fiscal situation of the state's handloom weavers.
- This scheme is restricted to those who are members of the Handloom Weavers Association.
- In the program guidelines, it is stated that the state government will provide a grant of Rs. 24,000 to certified weavers.
- The funds will be deposited into the account. Additionally, the state government would assist various other benefits under this scheme such as providing stuff such as looms for their work as well.

YSR Pension Kanuka Scheme

- Financial stability is crucial for candidates who are impoverished and vulnerable. In this sentence, the government of Andhra Pradesh introduced the Kanuka Pension Scheme.
- The pension programme has been introduced for those aged 60 and beyond. The candidates are required to possess BPL certificates.
- Previously, the plan gave participants a monthly stipend of Rs. 2,250. The sum was thereafter increased to Rs. 3000.
- To ensure transparency, the payment will be put into the applicant's bank account. People who are disabled may also readily apply for this assistance.

YSR Aarogyasri Scheme

- The Aarogyasri Scheme is open to low- and middle-income families, who may apply for its benefits. The scheme is similar to the Health card which was launched by the Central government in India.
- The programme has been designed to provide candidates with free medical care.
- It is an insurance policy that provides free medical care to enrolled family members. Annually, the beneficiary must submit a request for policy renewal.
- Applicants that are chosen will get a membership card. They may present this identification card at government hospitals to get free care.

YSR Kapu Nestam Scheme

- The Prime Minister declared that he would take the necessary steps to empower women from backward areas.
- The program targets women from the Telaga, kapu, Ontari, and Balija communities. The state government will provide a gift of Rs. 15,000 to the chosen recipients.
- This stipend will be deposited annually into the relevant beneficiary's bank account.
- The money will be useful if the ladies choose to establish small businesses and achieve financial independence.
- In order to qualify for the benefits of this assistance program, female candidates must be at least 45 years old and younger than 60 years old.

YSR Vahan Mitra Scheme

- In October of 2019, the Vahan Mitra Scheme was introduced.
- A specific financial support program has been developed for the benefit of the state's Auto Drivers which is why this scheme's name is Vahan.
- The program specifies that registered and licensed drivers would get Rs. 10,000 from the state government.
- Each year, the same amount will be deposited into the beneficiary's account.
- The drivers may use this money to pay for vehicle maintenance and repairs. This award may also be used to cover automobile insurance premiums. It will alleviate the financial difficulties of automobile drivers in need.

YSR Vidya Puraskar Scheme

- The Andhra Pradesh government encourages students and this scheme is for the welfare of students of the state as well.
- One project is YSR Vidya Puraskar. The program is for students who aced class 10's final test. Minority groups (ST, OBC, SC) may apply for the award. BPL and EWS pupils will be prioritized
- Click Here to Know More about

YSR Kanti Velugu Scheme

- The CM budgeted Rs. 560 crores for this project. The state has launched an extraordinary endeavor to improve eye care. Kanti Velugu's execution was excellent. It's a multiphase plan.
- First, schoolchildren received free eye tests under this scheme.
- In addition to eye exams, the program provides free eyeglasses and eye operations.

YSR Adarsham Scheme

- The Chief Minister implemented YSR Adarsham to help unemployed youths of the state
- The state will subsidize vehicle purchases under this plan.

- Under this scheme 6000 trucks were distributed, state authorities said. BPL and other disadvantaged classes may get government-subsidized vehicles.
- It will avoid transportation monopolies, streamline supply, and boost recipients' income. Beneficiaries' bank accounts will get the subsidy.

YSR Rythu Bharosa Scheme

- The YSR Rythu Bharosa Scheme ensures farmers' financial and social stability. Beneficiaries will get Rs. 12,500 annually.
- Farmers will also get 5 lakhs in life and accident insurance. The state pays for insurance. The state also guarantees recipients free energy and irrigation.
- The state will set a minimum crop selling price to protect farmers from financial losses.
- In addition to this, the AP government will also give farmers loans with no interest and free borewells. Each constituency would also get a cold storage area and a place to process food.

YSR Navodayam Scheme

- The scheme was launched in 2019 for the state of AP for targeting MSMEs.
- The owners of businesses that are classified as micro, small, and medium enterprises (MSME) will have the opportunity to apply for a one-time award to support the growth of their companies. Fifty percent of the project's award will be set aside for women who own businesses. Within the program's guidelines, it says that the owner of the business must have GST certification in order to get the benefits of the program.

YSR Pelli Kanuka Scheme

- The **YSR Pelli Kanuka Scheme** has been made so that brides from poor families can benefit from it.
- Applicants from the BPL and EWS groups will be able to get the benefits. The benefits are also open to people from OBC, minority, SC, and ST communities. The plan is also available to brides who have any kind of physical disability.
- The people who will receive the money can get anywhere from Rs. 1.5 lakhs to Rs. How much money a person gets will depend on what category they fall into. You can check the Official website

To draw a conclusion, the state government as a whole is committed to providing its citizens with effective governance. No one should be denied access to fundamental services or the opportunity to make a respectable living for themselves.

20.5 SUMMARY

The government's main response to reduce poverty is by making available the basic needs or by improving the disposable income needed for the purchase of those needs. This takes the form of social protection schemes which are ubiquitous in most countries in different forms. Social protection schemes were a major policy instrument used by governments around the world to tackle the problem of poverty. This holds even for the pre-pandemic era and will continue to be used in the future since, these policies address the very thing that characterises poverty i.e., the inability to meet the basic personal needs – food, clothing, and shelter. These are aimed at the redistribution of income from the wealthy to the poor but given the resource constraints in poorer economies and due to the predominant informality of the labour force, there is a need to maximise the allocative efficiency of the limited resources. In other words, social protection schemes need to target beneficiaries of those who need it the most and hopefully deliver benefits to as many intended beneficiaries as possible.

20.6 KEY WORDS

Unemployment : *Unemployment* is a term referring to individuals who are employable and actively seeking a job but are unable to find a job.

Unemployment rate : unemployment rate, is defined as the percentage of unemployed people in the labour force.

LFPR : The labor force participation rate indicates the percentage of all people of working age who are employed or are actively seeking work.

WFPR: The participation rate is a measure of the active portion of an economy's labor force. It refers to the number of people who are either employed or are actively looking for work.

Welfare: Welfare refers to assistance programs sponsored by governments for needy individuals and families, including schemes, such as food stamps, health care assistance, and unemployment compensation. These welfare schemes are typically financed through taxation.

20.7 SELF ASSESSMENT QUESTIONS:

Essay typed questions

1. Explain the Various Employment generation initiated in the state of Andhra Pradesh.
2. Give a note on the Welfare schemes in Andhra Pradesh
3. Critically examine the Skill enhancement initiatives in Andhra Pradesh.

Short Answer questions

4. Work force participation rates
5. Labour Force Participation rates
6. Unemployment rate

20.8 SUGGESTED READINGS

1. Socio Economic Survey Report of Andhra Pradesh, 2023
2. Andhra Pradesh Economy, Telugu Academy, 2023
3. Mahendra dev, “Human Development in Andhra Pradesh”, CESS, Hyderabad, 2009
4. A.P. Reorganization Act, 2014.

Prof. K. Madhu Babu

MODEL QUESTION PAPER (401ECO21)

B. A. Degree Examination

Second Year – Fourth Semester

Part – II : Economics

Paper – IV : ECONOMIC DEVELOPMENT IN INDIA AND ANDHRA PRADESH

Time : Three hours **Maximum Marks : 70**

Section – A

Answer any FIVE of the following questions. (5 x 4 = 20 Marks)

1) Food security.
ఆహార భద్రత

2) Micro Finance.
సూక్ష్మ విత్తం.

3) Agriculture price policy.
వ్యవసాయ ధరల విధానము.

4) Reforms in Banking.
బ్యాంకింగ్ రంగంలోని సంస్కరణలు.

5) Gross state Domestic product.
రాష్ట్ర స్థూల దేశీయోత్పత్తి.

6) Define planning.
ప్రణాళికను నిర్వచింపుము.

7) Rural credit.
గ్రామీణ పరపతి.

8) PMFBY.
ప్రధాన మంత్రి ఫసల్ భీమా యోజన.

Section – B

Answer the following questions. (5 x 10 = 50 Marks)

9) (a) Explain the importance of agriculture sector in Indian Economy.

భారత దేశ ఆర్థిక వ్యవస్థలో వ్యవసాయ రంగం యొక్క ప్రాధాన్యతను వివరింపుము.

Or

(b) Explain the factors determining the productivity in agriculture in India.

భారత దేశంలో వ్యవసాయ ఉత్పాదకను నిర్ణయించే కారణాంశాలను వివరింపుము.

10) (a) What is meant by Small Scale Industries? Explain the problems of Small Scale industries in India.

చిన్న తరహా పరిశ్రమలు అనగానేమి ? భారత దేశంలో చిన్న తరహా పరిశ్రమలు ఎదుర్కొంటున్న సమస్యలను వివరింపుము.

Or

(b) Explain the New industrial policy Resolution 1991.

1991 నూతన పారిశ్రామిక విధాన తీర్మానమును గూర్చి వివరింపుము.

11) (a) Discuss about disinvestment policy in India.

భారత దేశంలో పెట్టుబడుల ఉపసంహరణ విదహనము గూర్చి వివరించండి.

Or

(b) Explain the role of service sector in Indian Economy.

భారత దేశ ఆర్థిక వ్యవస్థలో సేవా రంగం యొక్క పాత్రను పరిశీలింపుము.

12) (a) Mention the objectives of Five Year plans and explain about 12^{th} Five Year plan.

పంచవర్ష ప్రణాళిక లక్ష్యాలను పేర్కొని 12 వ పంచవర్ష ప్రణాళికను గూర్చి వివరింపుము.

Or

(b) Explain the Welfare Schemes implementation in Andhra Pradesh.

ఆంధ్ర ప్రదేశ్ లో అమలులో ఉన్న సంక్షేమ పథకాలను గూర్చి వివరింపుము.

13) (a) India Tax System and recent changes.

భారత శిస్తు విధానము మరియు దీనిలో మార్పులు.

Or

(b) The basic characteristics of Andhra Pradesh economy after bifurcation in 2014.

2014 లో ఆంధ్ర ప్రదేశ్ రాష్ట్ర వేర్పాటు తరువాత వచ్చిన ఆర్థిక వ్యవస్థ యొక్క ప్రాథమిక లక్షణాలు.
