M.A. ECONOMICS - I YEAR

DKN13 : INDIAN ECONOMIC POLICY

SYLLABUS

UNIT - I : Indian Economy and Development

Basic characteristics of the Indian economy - Major issues of development - The determinants of economic development - sustainable development - Demographic features of Indian population - Rural Urban Migration - poverty and Inequality.

UNIT - II : The Agricultural Sector

The Role of Agriculture in Economic development - Place of Agriculture in the Economy of India - Land Reforms in India - Inter dependency of Agriculture and Industry - Agricultural Finance - Agricultural prices, polices and Food problem - Agricultural development.

UNIT - III : The Industrial Sector

A review on Industrial Policy - Role of large scale and small scale Industries in development. Private Sector and public sector - Industrial sickness - Industrial Finance - Industrial monopoly and Multinational corporations - Role of Information Technology in Industrial development.

UNIT - IV : External Sector

Structure and Direction of Foreign trade, Balance of Trade & Balance of payments - composition of Trade - Important of Foreign trade for developing economy - Exchange rate - Foreign capital and MNCs in India - Globalisation and its impact on Indian economy - WTO and its impact on the different sectors of the economy.

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CONTENTS

UNIT – I

Indian Economy and Development

Meaning of an Economy

An economy is a man-made organization for the satisfaction of human wants. According to A.J. Brown, “An economy is a system by which people get living”. The way man attempts to get a living differs in major respects from time to time and from place to place. In primitive times ‘get a living’ was simple but with growth of civilization it has become much more complex. Here it is important to note that the way person earns his/her living must be legal and fair. Unfair and illegal means such as robbery, smuggling may earn income for oneself but should not be taken into consideration as gainful economic activity or a system of ‘get a living’. It will therefore be appropriate to call that economy is a framework where all economic activities are carried out.

Basic characteristics of Indian Economy

Indian economy is an under developed economy in which Agriculture is the back bone of Indian economic. 60% of India’s population are on the below poverty line. Mineral resources are not fully utilized. We are selling iron ore by trucks and getting blades by packets. Majority of the people of India are leading a poverty line. Indian economic is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economic. So India is termed as developing economic by modern views.

Important features of Indian Economy

1. Low per capita income:

Under developed economy is characterized by low per capital income. India per capital income is very low as compared to the advanced countries. For example the capital income of India was 460 dollar, in 2000. Where as their capita income of U.S.A in 2000 was 83 times than India. This trend of difference of per capita income between under developed and advanced countries is gradually increasing in present times. India not only the per capita income is low but also the income is unequally distributed. This mal-distribution of income and wealth makes the problem of poverty in ore critical and acute and stands an obstacle in the process of economic progress.

2. Heavy Population Pressure:

The Indian economy is facing the problem population explosion. It is clearly evident from the total population of India which was 102.67 cores in 2001 census. It is the second highest populated country China being the first. India's population has reached 110 cores. All the under developed countries are characterized by high birth rate which stimulates the growth of population; the fast rate of growth of population necessitates a higher rate of economic growth to maintain the same standard of living. The failure to sustain the living standard makes the poor and under developed countries poor and under developed.

3. Pre-dominance of Agriculture:

Occupational distribution of population in India clearly reflects the backwardness of the economy. One of the basis characteristics of an under developed economy is that agriculture contributes a very large portion in the national income and a very high proportion of working population is engaged in agriculture

4. Unemployment:

There is larger unemployed and under employment is another important feature of Indian economy. In under developed countries labor is an abundant factor. It is not possible to provide gainful employment the entire population. Lack of job opportunities disguised unemployed is created in the agriculture fields. There deficiency of capital formation.

5. Low Rate of Capital Formation:

In backward economics like India, the rate of capital formation is also low. capital formation mainly depends on the ability and willingness of the people save since the per capita income is low and there is mal-distribution of income and wealth the ability of the people to save is very low in under developed countries for which capital formation is very low .

6. Poor Technology:

The lever of technology is a common factor in under developed economy. India economy also suffers from this typical feature of technological backwardness. The techniques applied in agriculture industries milling and other economic fields are primitive in nature.

7. Backward Institutional and social frame work:

The social and institutional frame work in under developed countries like India is hopelessly backward, which is a strong obstacle to any change in the form of production. Moreover religious institutions such as caste system, joint family universal marriage affects the economic life of the people.

8. Under utilization of Resources:

India is a poor land. So our people remain economically backwards for the lack of utilization of resources of the country.

9. Price instability:

Price instability is also a basis feature of Indian economy. In almost all the underdeveloped countries like India there is continuous price instability. Shortage of essential commodities and gap between consumption aid productions increase the price persistently. Rising trend of price creates a problem to maintain standard of living of the common people.

Meaning of Economic Development

Economic growth, as distinguished from economic development, is a sustained increase in national income. Taking the differences in population into consideration, it is reflected in the growth of per-capita income (i.e. national income + total population). Although there may be year-to-year fluctuations or short-term variations in the growth of national income, there has to be a continuous growth in national income in the longrun for it to qualify as economic growth.

Economic development, on the other hand, includes not only economic growth but also various other economic changes that improve the quality of life or standard of living of people in a country. If with economic growth, a country experiences various economic changes such as reduction in poverty and unemployment, reduction in income and wealth inequality, increase in literacy rate, improvement in health and hygiene, decrease in population growth, improvement in environmental standards etc, that improve the quality of life then that is economic development. Such economic changes that are conducive to improvements in standards of living of people are necessary for economic development. Otherwise, peoples standard of living may not improve in-spite of economic growth. It may happen that with economic growth, the rich get richer while the poor get poorer if the fruits of growth are snatched by the richer sections of the society. Clearly, economic development is a much broader concept than economic growth. It not only includes economic growth but also various other economic changes that bring about improvement in the standard of living of people or quality of life.

Determinants of Economic Development

The process of economic development is influenced by a number of economic as well as non-economic factors. The important economic factors are as follows:

(i) **Natural Resources**: The availability of natural resources facilitate and accelerate economic growth and economic development. It is believed that quality and quantity of natural resources affect the rate of growth.

(ii) **Human Resources**: Another important determinant of economic development is the quantity and quality of human resources or the population. Other things beingequal, educated and technically qualified manpower helps in achieving higher growth rate. On the other hand illiterate and unskilled population retards economic growth.

(iii) **Capital Formation**: Stock of capital goods is crucial for rapid economic growth. For increasing the stock of capital, rate of savings must be high. The savings must be invested. Given the rate of savings and investment the rate of growth will depend upon capital output ratio. If the domestic savings are not sufficient government can seek external assistance to increase capital formation and growth rate in developing countries.

(iv) **Technology**: Technology can play an important role in the economic development. Technological progress depends upon continuous research and development. Through technological progress a nation may overcome other constraints such as scarcity of natural resources and low productivity. Developed economies invest in its human capital.

Besides these economic factors many other non-economic factors such as (i) caste system, (ii) family type, (iii) racial factors, and (iv) government policies also affect the rate of growth and economic development. It is very difficult to measure economic development and to give one index of economic development. The most commonly used index of economic development i.e. increase in per capita income suffers from a serious drawback. This index does not take into account the consumption of natural resources and environmental degradation such as the smoke from the industries or the pollution caused by various industrial waste and by-products in the air and water resources. The cutting of forest and selling of timber will earn income and will be considered an economic activity and the income added in the national income statistics but the harm caused by deforestation will not be shown as a negative entry in the national accounts statistics. The economist therefore are seriously working on preparation of some new index that may account for these environment costs to the society and can be used as a welfare index of the society.

Major Issues of Development

Since 1991, the Indian economy has pursued free market liberalisation, greater openness in trade and increase investment in infrastructure. This helped the Indian economy to achieve a rapid rate of economic growth and economic development. However, the economy still faces various problems and challenges.

1. Inflation

Fuelled by rising wages, property prices and food prices inflation in India is an increasing problem. Inflation is currently between 8-10%. This inflation has been a problem despite periods of economic slowdown. For example in late 2013, Indian inflation reached 11%, despite growth falling to 4.8%. This suggests that inflation is not just due to excess demand, but is also related to cost push inflationary factors. For example, supply constraints in agriculture have caused rising food prices. This causes inflation and is also a major factor reducing living standards of the poor who are sensitive to food prices. The Central Bank of India have made reducing inflation a top priority and have been willing to raise interest rates, but cost push inflation is more difficult to solve and it may cause a fall in growth as they try to reduce inflation.

2. Poor educational standards

Although India has benefited from a high % of English speakers. (important for call centre industry) there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50% of Indian women are illiterate. This limits economic development and a more skilled workforce.

3. Poor Infrastructure

Many Indians lack basic amenities lack access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40% of Indian fruit rots before it reaches the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.

4. Balance of Payments deterioration.

Although India has built up large amounts of foreign currency reserves the high rates of economic growth have been at the cost of a persistent current account deficit. In late 2012, the current account reached a peak of 6% of GDP. Since then there has been an improvement in the current account. But, the Indian economy has seen imports growth faster than exports. This means India needs to attract capital flows to finance the deficit. Also, the large deficit caused the depreciation in the Rupee between 2012 and 2014. Whilst the deficit remains, there is always the fear of a further devaluation in the Rupee. There is a need to rebalance the economy and improve competitiveness of exports.

5. High levels of private debt

Buoyed by a property boom the amount of lending in India has grown by 30% in the past year. However there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore if inflation increases further it may force the RBI to increase interest rates. If interest rates rise substantially it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future

6. Inequality has risen rather than decreased.

It is hoped that economic growth would help drag the Indian poor above the poverty line. However so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from the India's economic growth. More than 78 million homes do not have electricity. 33% (268million) of the population live on less than $1 per day. Furthermore with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor. (3)

7. Large Budget Deficit

India has one of the largest budget deficits in the developing world. Excluding subsidies it amounts to nearly 8% of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.

8. Rigid labour Laws

As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

9. Inefficient agriculture

Agriculture produces 17.4% of economic output but, over 51% of the work force are employed in agriculture. This is the most inefficient sector of the economy and reform has proved slow.

10. Slowdown in growth

2013/14 has seen a slowdown in the rate of economic growth to 4-5%. Real GDP per capita growth is even lower. This is a cause for concern as India needs a high growth rate to see rising living standards, lower unemployment and encouraging investment. India has fallen behind China, which is a comparable developing economy

Demographic features of Indian Economy

The demographic feature of Indian economy states characteristics of population constitutes the human resources of a country. The population is vital from the point of economic growth and resources of the country. India's population is rising geometrically where as production rises arithmetically, according to 2001 census the population is about 102 cores. The demography of India's population is like the density of population, age composition, sex composition, literacy rate, life expectancy and rural-urban ratio etc.

Important Demographic Features of Indian Economy

Density of population:

The density of population calculated as a ratio of the number of persons per square kilometer of land area. Normally the density of population is very high in the urban and industrial areas and it is quite low in the rural areas, according 2001 census the density of population in India is 324. The density of Population was as low as 7.7 persons per square kilometers in 1901.

In 2001 density of population further creased to 324 people per square kilometer. India is one of the dense populated countries in the world. The density of population determines the magnitude of the burden that India is being called upon to carry and to determine the future potential of growth. The availability of natural resources and the use of technology determine the density of population with higher standard of living. So the density of population is an index of either prosperity or poverty of a country

Sex composition:

In India there is trend in favor of masculine population. The sex distribution of population of India I show two things (a) a higher ratio males in the population and (b) a rising tendency towards masculinity. The proportion of females per 100 males has fallen from 962 in 1901 to 933 in 2001. In Kerala females are 1040 in 1991 per 1000 males.

In India 103 female babies are born against 100 male babies and loss of female babies after birth is much higher than that of male. This led to fall in sex ratio. There are a number of factors which are responsible for the fall in sex ration. They are of more female folks due to insufficient attention and care after birth. The death rates of women are high during reproductive age group 11-19 due to the practice in early marriage.

Age composition:

The analysis of age composition of population can determine the proportion of labor force in the total population of the country. The population in India is divided into three groups on the basis of age structure such as 0-14, 15-59 and 60 and above. The higher child population in India has resulted from higher birth rate and fall in the infant mortality rate. Populations on 0-14 age groups are dependent. The proportion on working population in the age group of 55-60 has been declining from 60.2 percent in 1921 to 57.1 percent in 1951 and then 54.1 percent in 1981. Again, the proportion of age and old population in the age group to 60 and above has also been increasing from 1.2 percent in 1921 to 5.5 percent in 1951 and then to 6 A percent in 1981 . Thus, the proportion of child, and the old people are increasing in number.

Rural - Urban Composition:

The rural urban composition of India population reflects on the pattern of living of the country's population. In India majority of the population lives in rural areas. However, there is growing trend for gradual shift of population from rural to urban areas. The urban population increased by 41 percent during 194.51. The percentage of urban population in total population has gone up from 17 percent in 1951 to 25.72 percent in 1991 and 27.8 percent in 2001 2011 is hoped.

Life Expectancy:

The average life expectancy of birth in India has been gradually increasing the average life experience was 41.2 years in 1951-61 and increase to 46.4 years in 1961-71. The increases in the life expectancy have become possible due full in the infant mortality. So although the life expectancy in Mila increased in recent years but it compares on favorable with the level of the expectancy attained in some other countries.

Literacy rate in India:

In India the level of literacy which was only 18.3 percent in 1951 gradually increased to 23 percent in 1961 and 34.5 percent 1971. The sate literacy was mentioned was measured in India excluding the children in the age groups of 0-4 till 1981.

To the Census 2001 the literacy rate is 65.38 for male and 54.16 for women, if the growth of literacy to remove literacy totally net before 2040 AD.

Rural Urban Migration

Urbanization is taking place at a faster rate in India. Population residing in urban areas in India, according to 1901 census, was 11.4%. This count increased to 28.53% according to 2001 census, and crossing 30% as per 2011 census, standing at 31.16%. Mumbai saw large scale rural-urban migration in the 20th century.

People migrate for many different reasons. These reasons can be classified as economic, social, political or environmental: ... political migration - moving to escape political. The reasons people move to urban areas vary greatly depending on the person, but they typically revolve around employment. Economic reasons, such as quality of housing and cost of living are other common reasons for relocating from a rural to an urban area. Education is also a large factor section or war. Environmental causes of migration include natural.

Human migration is the movement by people from one place to another with the intentions of settling, permanently in the new location. The movement is often over long distances and from one country to another, but internal migration is also possible; indeed, this is the dominant form globally. asters such as flooding. Rural-urban migration is the movement of people from the countryside to the city. This causes two things to happen: 1. Urban growth - towns and cities are expanding, covering a greater area of land. 2. Urbanisation - an increasing proportion of people living in towns and cities

Rural-urban migration

Marriage:

One of the important social factors of migration. Every girl has to migrate to her in-law's house after marriage. So, the entire female population of India has to migrate over short or long distance. And, that results in rural-urban migration.

Employment:

Most of the people migrate from rural to urban areas in search of employment. In rural reas, employment opportunities are less due to limited types of industries but in urban areas, there is a vast scope for employment in industries, trade, transport and services.

Education:

There is a substantial lack of educational facilities, especially those of higher education hich result in migration of people to the urban areas for this purpose. Many of them settle down in the urban areas for earning a livelihood after completing their education.

Lack of Security:

Political disturbances and cultural conflicts also result in rural-urban migration. Example: Many people migrated out of Jammu and Kashmir and Assam due to disturbed conditions there.

Various factors are responsible for the rural-urban migration in India:

1) Poor returns from the subsistence agriculture and agricultural distress owing to monsoon failure, untimely rains , flash floods etc. make lose the trust of farmer in farming and force him to migrate to cities for better employment.

2) The construction, manufacturing and other urban services boom especially since the globalization looks better for him compared to the low rural wages and returns.

3) The penetration of education in villages turns the educated youth to look for better life avenues in urban areas and metros.

4) Lack of growth in non-farming employment opportunities in rural areas due to low purchasing power there and the absence of such a consumption culture like in cities both urges people to move to cities for starting new businesses.

5) The social restrictions in employment like the caste system also make people resort to migrate to cities where they can work freely under the urban anonymity.

6) The depletion of hitherto village common properties like ponds, forests, grazing lands etc for which the marginalized communities and the tribals depended for their livelihood, made them to look into cities for their survival.

Rural-urban migration is a natural phenomenon in any society. It takes special attention in developing countries where industrialization is in progress and economic activities are on rise.

Reasons:

1. Migration due to marriage is not considered migration by the definition of census. Half of the population (female) in our country migrate due to marriage but are not included officially.
2. Most of the villages due to geographical constraints have limited economic activities. Limited economic activities also restricts employment opportunities. Population increase is insufficiently met by economic opportunities which lead to increase in mobility of the rural population.
3. Village economy is mainly based on agriculture and people without agricultural land find hard to sustain as there are hardly any other economic activities. They are forced to migrate for better opportunities.

4. Most of the migrant workers are ready to take up any job in new cities and are not concerned about their social position and status. However, what kind of jobs they take in their village is also determined by how they identity themselves in the village.
5. Education and job is another reason for migration. young population migrates to cities for higher/technical degrees. After completion, they get a job in cities. Emergence of IT sector is one of the factors which has lead to migration in the working class. They are restricted to live in cities.
6. Most of the migration is through social network. People, if they have relatives/friends/acquaintances in cities, they are ready to move to cities and try their luck.
7. It has become more of a tradition to follow. It is more like, "nothing is there in the village. My dad went and worked in the city. I will also go." Many a times it is the parents who condition their children that they should move to cities for better livelihood.
8. Cosmopolitan culture is also deriving people to migrate to cities. With the penetration of media in rural areas, people are exposed to various cultures and way of life.

They do not hesitate to try their luck in cities. As per census report, rural to urban migration increased from 42% in 2001 to 56% in 2011.

Poverty and Inequality

Measuring Inequality

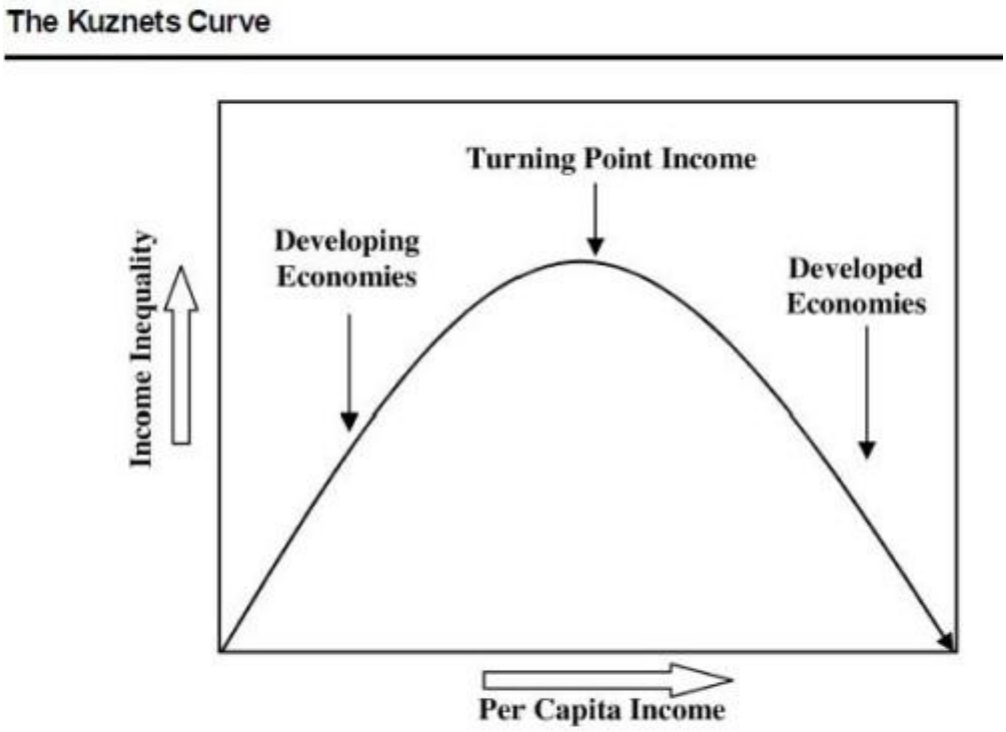
Economists usually like to distinguish between two principal measures of income distribution for both analytic and quantitative purposes: the personal or size distribution of income and the functional or distributive factor share distribution of income.

Size Distribution

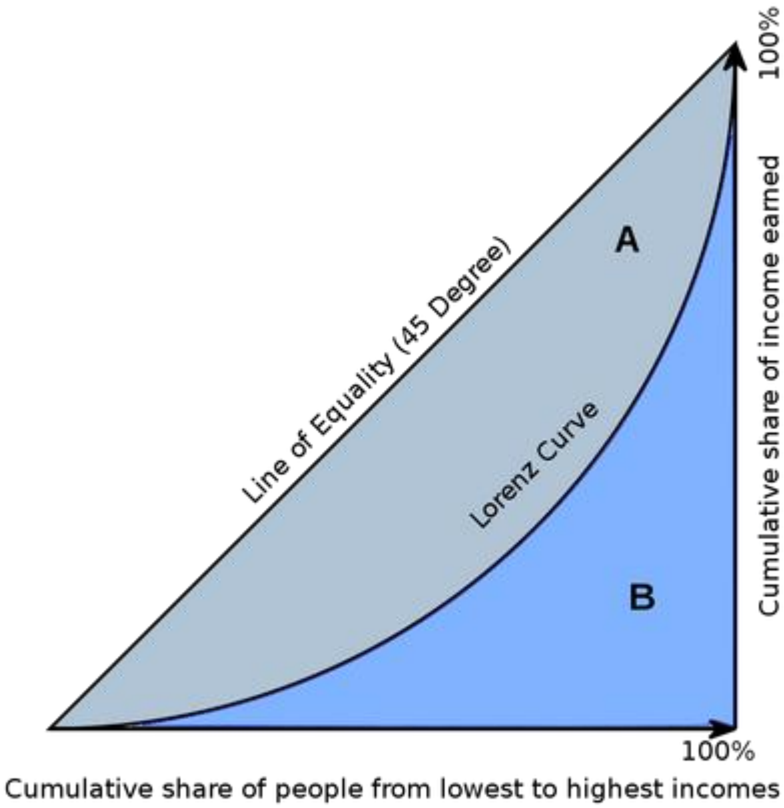
The personal or size distribution of income is the measure most commonly used by economist. It simply deals with individual persons or households and the total incomes they received. The way in which that income was received is not considered. What matters is how much each earns irrespective of whether the income was derived solely from employment or came also from other sources such as interests, profits, rents, gifts, or inheritance. Moreover, the locational (urban or rural) and occupational sources of the income (e.g., agriculture, manufacturing, commerce, service) are neglected. Economists and statisticians therefore like to arrange all individuals by ascending personal incomes and then divide the total population into distinct groups or sizes. A common method is to divide the population into successive quintiles (fifths) or deciles (tenths) according to ascending income levels and then determine what proportion of the total income is received by each income group.

A common measure of income inequality that can be derived from the ratio of the incomes received by the top 20% and bottom 40% of the population. This ratio sometimes called Kuznets ratio after the Nobel laureate Simon Kuznets, is often used as a measure of the degree of inequality between the two extremes of very poor and very rich in the country. We see, for example, that the bottom 10% of the population (the poorest individuals) is receiving only 1.8% of the total income, while the top 10% (the riches individuals) receives 28.5%. Finally, if we wanted to know what the top 5% receives, we would divide the total population into 20 equal groups of individuals and calculate the percentage of total income received by the top group. We see that the top 5% of the population receives 15% of the income, a higher share than the combined shares of the lowest 40%.

Lorenz curve



The Lorenz curve is a graphical representation of the cumulative distribution function of a probability distribution; it is a graph showing the proportion of the distribution assumed by the bottom y% of the values. It is often used to represent income distribution, where it shows for the bottom x% of households, what percentage y% of the total income they have. The percentage of households is plotted on the x-axis, the percentage of income on the y-axis. It can also be used to show distribution of assets. In such use, many economists consider it to be a measure of social inequality. It was developed by Max O. Lorenz in 1905 for representing income distribution. Every point on the Lorenz curve represents a statement like “the bottom 20% of all households has 10% of the total income”. A perfectly equal income distribution would be one in which every person has the same income. In this case, the bottom N% of society would always have N% of the income. This can be depicted by the straight line $y = x$; called the **line of perfect equality** or the 45° line.



By contrast, a perfectly unequal distribution would be one in which one person has all the income and everyone else has none. In that case, the curve would be at $y = 0$ for all $x < 100\%$, and $y = 100\%$ when $x = 100\%$. This curve is called the line of perfect inequality.

The Gini coefficient is the area between the line of perfect equality and the observed Lorenz curve, as a percentage of the area between the line of perfect equality and the line of perfect inequality. (This equals two times the area between the line of perfect equality and the observed Lorenz curve.) The higher the coefficient, the more unequal the distribution is.

Gini Coefficient

The Gini coefficient is a measure of statistical dispersion most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1: the numerator is the area between the Lorenz curve of the distribution and the uniform distribution line; the denominator is the area under the uniform distribution line. Thus, a low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution. 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income). The Gini coefficient requires that no one have a negative net income or wealth. The Gini coefficient was developed by the Italian statistician Corrado Gini and published in his 1912 paper "Variabilità e mutabilità" ("Variability and Mutability"). The Gini index is the Gini coefficient expressed as a percentage, and is equal to the Gini coefficient multiplied by 100. (The Gini coefficient is equal to half of the relative mean difference.)

Correlation with per-capita GDP

Poor countries (those with low per-capita GDP) have Gini coefficients that fall over the whole range from low (0.25) to high (0.71), while rich countries generally have intermediate Gini coefficients (under 0.40). The lowest Gini coefficients can be found in Japan, Scandinavian countries, and in many recently ex-socialist countries of Eastern Europe.

Advantages of Gini coefficient as a measure of inequality

- The Gini coefficient's main advantage is that it is a measure of inequality by means of a ratio analysis, rather than a variable unrepresentative of most of the population, such as per capita income or gross domestic product.
- It can be used to compare income distributions across different population sectors as well as countries, for example the Gini coefficient for urban areas differs from that of rural areas in many countries (though the United States' urban and rural Gini coefficients are nearly identical).
- It is sufficiently simple that it can be compared across countries and be easily interpreted. GDP statistics are often criticized as they do not represent changes for the whole population; the Gini coefficient demonstrates how income has changed for poor and rich.

If the Gini coefficient is rising as well as GDP, poverty may not be improving for the majority of the population.

- The Gini coefficient can be used to indicate how the distribution of income has changed within a country over a period of time, thus it is possible to see if inequality is increasing or decreasing.
- The Gini coefficient satisfies four important principles:
- Anonymity: it does not matter who the high and low earners are.
- Scale independence: the Gini coefficient does not consider the size of the economy, the way it is measured, or whether it is a rich or poor country on average.
- Population independence: it does not matter how large the population of the country is.
- Transfer principle: if income (less than the difference), is transferred from a rich person to a poor person the resulting distribution is more equal.

Disadvantages of Gini coefficient as a measure of inequality

- The Gini coefficient of different sets of people cannot be averaged to obtain the Gini coefficient of all the people in the sets: if a Gini coefficient were to be calculated for each person it would always be zero. When measuring its value for a large, economically diverse country, a much higher coefficient than each of its regions has individually will result. (The coefficient is usually applied to measurable nominal income rather than local purchasing power, tending to increase the calculated coefficient across larger areas.)

For this reason the scores calculated for individual countries within the EU are difficult to compare with the score of the entire US: the overall value for the EU should be used in that case, which is still much lower than the United States',. Using decomposable inequality measures (e.g. the Theil index T converted by $1 - e^{-T}$ into an inequality coefficient) averts such problems.

- The Lorenz curve may understate the actual amount of inequality if richer households are able to use income more efficiently than lower income households. From another point of view, measured inequality may be the result of more or less efficient use of household incomes.
- Economies with similar incomes and Gini coefficients can still have very different income distributions. This is because the Lorenz curves can have different shapes and yet still yield the same Gini coefficient. As an extreme example, an economy where half the households have no income and the other half share income equally has a Gini coefficient of ½; but an economy with complete income equality, except for one wealthy

household that has half the total income, also has a Gini coefficient of ½. In practice, such distributions do not exist, and therefore, the impact of different but realistic curves is less obvious.

- It measures current income rather than lifetime income. A society in which everyone earned the same over a lifetime would appear unequal because of people at different stages in their life; a society in which students study rather than save can never have a coefficient of 0.

Problems in using the Gini coefficient

- Gini coefficients do include income gained from wealth; however, the Gini coefficient is used to measure net income more than net worth, which can be misinterpreted. For example, Sweden has a low Gini coefficient for income distribution and a higher Gini coefficient for wealth (the wealth inequality is low by international standards, but still significant: 5% of Swedish household shareholders hold 77% of the share value owned by households). In other words and as a normative statement: The Gini income coefficient should not be interpreted as measuring effective egalitarianism; and distribution of stock ownership does not appear to correlate to many recognized indicators of egalitarianism.
- Too often only the Gini coefficient is quoted without describing the proportions of the quintiles used for measurement. As with other inequality coefficients, the Gini coefficient is influenced by the granularity of the measurements. For example, five 20% quintiles (low granularity) will usually yield a lower Gini coefficient than twenty 5% quintiles (high granularity) taken from the same distribution. This is an often encountered problem with measurements.
- Care should be taken in using the Gini coefficient as a measure of egalitarianism, as it is properly a measure of income dispersion. Two equally egalitarian countries with different immigration policies may have different Gini coefficients.
- Greater equality in a society does not necessarily mean greater overall prosperity. The Gini Index cannot be used to directly measure prosperity.

This John Bates Clark theory of the distribution of income illustrates what economists call the "functional distribution of income." Economists distinguish two concepts of the distribution of income:

The functional distribution of income

The functional distribution of income is the distribution between groups in society who own different factors of production, i.e. the proportion of income going to employees, landowners, and owners of capital respectively.

The personal distribution of income

The personal distribution of income is the distribution of income among individuals, families or households, regardless of what factors of production they own. Of course, the personal distribution depends partly on the functional distribution, but it also depends on who owns what. In other words, the words of British radical economist Joan Robinson, the functional distribution tells us the distribution of income among the factors of production, but the personal distribution depends on the distribution of the "factors among the chaps." This is important if we are concerned about inequality in the distribution of income. Generally, income from land and capital is much less equally distributed than income from labor. In the idealized John Bates Clark world, income from labor would be absolutely equally distributed among those who work the same hours, because labor is assumed to be homogenous. But that's a simplifying assumption. In the real world, people who have better skills or stronger bodies may be able to earn a higher wage. This makes for some inequality in labor income. But the ownership of land and capital is much more unequally distributed than the capacity to earn wages, so income from property is much more unequally distributed among persons.

Measuring Poverty

Although the most severe poverty is in the developing world, there is evidence of poverty in every region. In developed countries, this condition results in wandering homeless people and poor suburbs and ghettos. Poverty may be seen as the collective condition of poor people, or of poor groups, and in this sense entire nation-states are sometimes regarded as poor. To avoid stigma these nations are usually called developing nations. When measured, poverty may be absolute or relative poverty. Absolute poverty refers to a set standard which is consistent over time and between countries. An example of an absolute measurement would be the percentage of the population eating less food than is required to sustain the human body (approximately 2000-2500 kilocalories per day). Relative poverty, in contrast, views poverty as socially defined and dependent on social context. One relative measurement would be to compare the total wealth of the poorest one-third of the population with the total wealth of richest 1% of the population. In this case, the number of people counted as poor could increase while their income rise. There are several different income inequality metrics, one example is the Gini coefficient. The main poverty line used in the OECD and the European Union is a relative poverty measure based on “economic distance”, a level of income set at 50% of the median household income. The United States, in contrast, uses an absolute poverty measure. The US poverty line was created in 1963-64 and was based on the dollar costs of the U.S. Department of Agriculture’s “economy food plan” multiplied by a factor of three. The multiplier was based on research showing that food costs then accounted for about one third of the total money income. This one-time calculation has since been annually updated for inflation. The US line has been critiqued as being too high, that it takes into account something other than true poverty. For example, the Heritage Foundation objects to the fact that, according to the U.S. Census Bureau, 46% of those defined as being in poverty in the U.S. own their own home (with the average poor person’s home having three bedrooms, with one and a half baths, and a garage). Both absolute and relative poverty measures are usually based on a person’s yearly income and frequently take no account of total wealth. Some people argue that this ignores a key component of economic well-being. The World Bank defines poverty in absolute terms. The bank defines extreme poverty as living on less than $1 per day US (PPP), and moderate poverty as less than $2 a day. It has been estimated that in 2001, 1.1 billion people had consumption levels below $1 a day and 2.7 billion lived on less than $2 a day. The proportion of the developing world’s population living in extreme economic poverty has fallen from 28 percent in 1990 to 21 percent in 2001. Much of the improvement has occurred in East and South Asia. In Sub-Saharan Africa GDP/capita shrank with 14 percent and extreme poverty increased from 41 percent in 1981 to 46 percent in 2001. Other regions have seen little or no change. In the early 1990s the transition economies of Europe and Central Asia experienced a sharp drop in income. Poverty rates rose to 6 percent at the end of the decade before beginning to recede. There are various criticisms of these measurements. Some economists such as Guy Pfeffermann say that other non-monetary indicators of “absolute poverty” are also improving. Life expectancy has greatly increased in the developing world since WWII and is starting to close the gap to the developed world where the improvement has been smaller. Even in Sub-Saharan Africa, the least developed region, life expectancy increased from 30 years before World War II to a peak of about 50 years before the HIV pandemic and other diseases started to force it down to the current level of 47 years. Child mortality has decreased in every developing region of the world. The proportion of the world’s population living in countries where per-capita food supplies are less than 2,200 calories (9,200 kilojoules) per day decreased from 56% in the mid-1960s to below 10% by the 1990s. Between 1950 and 1999, global literacy increased from 52% to 81% of the world. Women made up much of the gap: Female literacy as a percentage of male literacy has increased from 59% in 1970 to 80% in 2000. The percentage of children not in the labor force has also risen to over 90% in 2000 from 76% in 1960. There are similar trends for electric power, cars, radios, and telephones per capita, as well as the proportion of the population with access to clean water. Income inequality for the world as a whole is diminishing. A 2002 study by Xavier Sala-i-Martin finds that this is driven mainly, but not fully, by the extraordinary growth rate of the incomes of the 1.2 billion Chinese citizens. However, unless Africa achieve economic growth, then China, India, the OECD and the rest of middle-income and rich countries will diverge away from it, and global inequality will rise. Thus, the economic growth of the African continent should be the priority of anyone concerned with decreasing global income inequality.

Poverty Gap Index

The mean distance below the poverty line as a proportion of the poverty line where the mean is taken over the whole population, counting the non-poor as having zero poverty gap. Even if poverty may be lessening for the world as a whole, it continues to be an enormous problem:

- One third of deaths – some 18 million people a year or 50,000 per day – are due to poverty-related causes. That's 270 million people since 1990, the majority women and children, roughly equal to the population of the US.
- Every year nearly 11 million children die before their fifth birthday.
- In 2001, 1.1 billion people had consumption levels below $1 a day and 2.7 billion lived on less than $2 a day
- 800 million people go to bed hungry every day.

The World Bank's "Voices of the Poor", based on research with over 20,000 poor people in 23 countries, identifies a range of factors which poor people consider elements of poverty. Most important are those necessary for material well-being, especially food. Many others relate to social rather than material issues.

- precarious livelihoods
- excluded locations
- gender relationships
- problems in social relationships
- lack of security

- abuse by those in power
- dis-empowering institutions
- limited capabilities, and
- weak community organizations.

Human Poverty Index

The Human Poverty Index is an indication of the standard of living in a country, developed by the United Nations (UN). For highly developed countries, the UN considers that it can better reflect the extent of deprivation compared to the Human Development Index.

The human poverty index for developing countries (HPI-1)

The Human Development Reports website summarizes this as "A composite index measuring deprivations in the three basic dimensions captured in the human development index — a long and healthy life, knowledge and a decent standard of living." The formula for calculating it is:

- HPI-1 =

P_1: Probability at birth of not surviving to age 40 (times 100) P_2: Adult illiteracy rate P_3: Unweighted average of population without sustainable access to an improved water source and children under weight for age α: 3

The human poverty index for selected OECD countries (HPI-2)

The Human Development Reports website summarizes this as "A composite index measuring deprivations in the three basic dimensions captured in the human development index — a long and healthy life, knowledge and a decent standard of living — and also capturing social exclusion." The formula for calculating it is:

- HPI-2 =

P_1: Probability at birth of not surviving to age 60 (times 100) P_2: Adults lacking functional literacy skills P_3: Population below income poverty line (50% of median adjusted household disposable income) P_4: Rate of long-term unemployment (lasting 12 months or more) α: 3 The last report, 2007-2008, only has a ranking for 19 of the 22 countries with the highest Human Development Index. The ranking is as follows (with the country with the lowest amount of poverty at the top):

The countries ranked in the top 21 by HDI that are not on this list are Iceland and New Zealand. Note that not all countries are included because data for the indicators are not always available. So positions could change if they were. Especially countries at the bottom could drop considerably if the list were extended. For specific values for other countries than the ones on the list, see source links below. Indicators used are:

- Probability at birth of not surviving to age 60 (% of cohort), 2000-2005. Varies from 7.1% for Japan to 11.8 for the USA. This is the indicator that is best known for all countries (including the ones not on the list). The USA has specific values associated with disease characteristics of poverty. Worse values start only at position 35 of the HDI, indicating that many countries could climb on an extended list based on this, knocking down lower ranked countries on the above list.
- People lacking functional literacy skills (% of people scoring in the range called "Level 1" in the International Adult Literacy Survey, age 16-65, 1994-2003). Varies from 7.5% for Sweden to 47.0% for Italy. These figures are higher than most commonly cited illiteracy rates due to the choice of the literacy test.
- Long-term unemployment (12 months or more, % of labor force), 2005. Varies from 0.4% for Norway to 5.0% for Germany. This indicator has by far the greatest variation, with a value as high as 9.3% at HDI position 37.
- Population below 50% of median adjusted household disposable income (%), 1994-2002. Varies from 5.4% for Finland to 17% for the USA.

Poverty, Inequality and Social Welfare: What's so bad about Inequality?

- Inequality depends on factors that are persistent through time:
- inequality in access to education and credit (entrepreneurship);
- culture and social structures associated with discrimination;
- inequality in political representation;
- inter-generational transmission of inequality via fertility and educational decisions (poor people tend to have more kids and invest less in each).

Apart from welfare concerns, inequality also has direct economic consequences. Inequality tends to increase crime (economic theory of crime). The material costs of crime are around 4% of GDP for the US and probably more for Latin America and ex-USSR. Inequality may also affect policy-making, if income is related to political power. Richer people have more influence. On the other hand, extreme income inequality:

1. Leads to economic inefficiency:
    - Low purchasing power for the extremely poor results to lower consumer demand

- Lower consumer demand shun away prospective investors that create new jobs and opportunities
- Lack of new jobs and opportunities will result to increase of unemployment rate

2. Tends to lower the over-all amount/rate of savings in the economy:
   - Investors, land lords, businessmen, and elite would prefer to bring out their savings out of the country and invest it somewhere where they would earn more, thus, results to capital flight.
3. Leads to inefficient allocation of assets and resources:
   - Greater number of extremely poor results in smaller tax base.
   - Lesser people working or having opportunity will lessen the possible number of tax payers.

Dualistic development and shifting Lorenz curves: some stylized typologies:

1) Modern sector enlargement:

   The two-sector economy develops by enlarging the size of its modern sector while maintaining constant wages in both sectors.Absolute income rise and absolute poverty is reduced, but the Lorenz curves will always cross so that we cannot make any unambiguous statement about changes in relative inequality. It may improve or worsen.

2) Modern sector enrichment

   The economy grows but such growth is limited to a fixed number of people in the modern sector, with both the numbers of workers and their wages held constant in the traditional sector.Growth results in higher incomes, a less equal relative distribution of income, and no change in poverty. Modern-sector enrichment growth causes the Lorenz curve to shift downward and farther from the line of equality.

3) Traditional-sector enrichment

   All of the benefits of growth divided among traditional-sector workers with little or no growth occurring in the modern sector.Growth results in higher income, a more equal relative distribution of income, and less poverty. Traditional-sector enrichment growth causes the Lorenz curve to shift uniformly upward and closer toward the line of equality.

Efficiency versus Equality

Some degree of inequality is due to the fact that different people have different levels of ability. Also, some degree of inequality is necessary to generate incentives in the market è this is the way to make people work hard, or to give right incentives for creative people to innovate. Policies that try to reduce this type of inequality tend to reduce the efficiency in terms of allocation of resources

The Kuznets Curve

Economists used to think that inequality would initially increase with economic development, and only be reduced at higher levels of development.An inverse U-shaped relationship between per capita income and inequality, suggesting that inequality is low in very poor countries, rises as they develop, and then ultimately falls as income rises still further. Hypothesized by Simon Kuznets in 1995.

Kuznets curve is the graphical representation of Simon Kuznets's theory ('Kuznets hypothesis') that economic inequality increases over time while a country is developing, then after a critical average income is attained, begins to decrease. One theory as to why this happens, in early stages of development, when investment in physical capital is the main mechanism of economic growth, inequality encourages growth by allocating resources towards those who save and invest the most. Whereas in mature economies human capital accrual, or an estimate of cost that has been incurred but not yet paid, takes the place of physical capital accrual as the main source of growth, and inequality slows growth by lowering education standards because poor people lack finance for their education in imperfect credit markets. Kuznets curve diagrams show an inverted U curve, although variables along the axes are often mixed and matched, with inequality or the Gini coefficent on the Y axis and economic development, time or per capita incomes on the X axis.

The **Kuznets Ratio** is a measurement of the ratio of income going to the highest-earning households (usually defined by the upper 20%) and the income going to the lowest-earning households, which is commonly measured by either the lowest 20% or lowest 40% of income. Comparing 20% to 20%, perfect equality is expressed as 1; 20% to 40% changes this value to 0.5. Kuznets had two similar explanations for this historical phenomenon:

- workers migrated from agriculture to industry,
- rural workers moved to urban jobs.

In both explanations, inequality will decrease after 50% of the work force switches over to the higher paying sector. Cross-country data do not support the hypothesis that poor countries grow more rapidly than rich countries. In other words, there is no evidence of *absolute* convergence in the sense that poor countries gradually catch up with rich countries. True, a low level of income indicates unexploited growth opportunities, and thus helps create favorable conditions for rapid economic growth, other things being the same. But other things are not the same. For example, poor countries typically send fewer kids to school and grow less rapidly as a result. When other things are held equal (this can be done through regression analysis), empirical evidence indicates that poor countries actually converge — slowly, yes, but still — on rich countries. This is known as *conditional* convergence, and does not contradict the absence of absolute.

Inequality and Social Welfare

High levels of inequality contribute to high levels of poverty in several ways:

- For any given level of economic development or mean income, higher inequality implies higher poverty, since a smaller share of resources is obtained by those at the bottom of the distribution of income or consumption.
- Higher initial inequality may result in lower subsequent growth and, therefore, in less poverty reduction. The negative impact of inequality on growth may result from various factors. For example, access to credit and other resources may be concentrated in the hands of privileged groups, thereby preventing the poor from investing.
- Higher levels of inequality may reduce the benefits of growth for the poor because a higher initial inequality may lower the share of the poor's benefits from growth. At the extreme, if a single person has all the resources, then whatever the rate of growth, poverty will never be reduced through growth.

Absolute Poverty: Extent and Magnitude

Using head count ratio, some progress has been made: 28.3% of the world's population was absolutely poor in 1987, but had fallen to 24.0% by 1998. An achievement since the world's population increased by nearly a billion people during this period and virtually all of that increase occurred in the developing world, much of that in the low-income countries where poverty is concentrated. Significant gains were made in East Asia where head count fell from 417.5 million to 278.3 million during the 11-year period, which corresponded to an impressive drop in the headcount ratio from 26.6% to 15.3%. Notable gains were also made in the Middle East and North Africa. However, in Sub-Saharan Africa, absolute poverty increased substantially from 217.2 million people to 290.9 million although there was essentially no change in the headcount ratio at over 46%, the highest incidence in the world. Absolute poverty increased from a miniscule 0.2% of the population in Europe and Central Asia to a worrying 5.1%. Figure below provides a visual picture of where poverty has fallen and where it has not. The result of these different experiences with changes in absolute poverty has been a shift in the location of the poor, away from East Asia and toward sub-Saharan Africa and South Asia as well as Europe and Central Asia. *Source: From World Development Report 2000/01 by World Bank, © 2000 by the International Bank for the Reconstruction and Development/The World Bank (New York: Oxford), p.24.* Based from the figure, it is noted that the poverty gap tends to be worse in sub-Saharan Africa, where the share in poverty is stable or rising, than in South Asia, where it is falling. *Source: From World Development Report 2000/01 by World Bank, © 2000 by the International Bank for the Reconstruction and Development/The World Bank (New York: Oxford), p.24.* Most current projections call for the number of persons living in poverty to rise over the current decade before declining throughout the rest of the century. This outcome depends critically on two factors:

1. The rate of economic growth (provided it is undertaken in a sustainable way); and
2. The level of resources devoted to poverty programs and the quality of those programs.

Rapid sustainable growth and timely, well-designed poverty programs could reduce absolute poverty even more quickly, without this two factors, however, the goal could be missed by a wide mark.

Growth and Poverty

Traditionally, a body of opinion held that rapid growth is bad for the poor, because they would be bypassed and marginalized by the structural changes of modern growth. The public expenditures required for the reduction of poverty would entail a reduction in the rate of growth. There are at least five reasons why policies focused toward reducing poverty levels need not lead to a slower rate of growth.

Widespread poverty creates a conditions in which the poor have no access to credit, are unable to finance their children’s education; and, in the absence of physical or monetary investment opportunities, have many children as a source of old-age financial security.

Unlike the historical experience of the now developed countries, the rich in contemporary poor countries are generally not noted for their frugality or for their desire to save and invest substantial proportions of their income in the local economy.

The low incomes and low levels of living for the poor, which are manifested in poor health, nutrition, and education, can lower their economic productivity and thereby lead directly and indirectly to a slower-growing economy.

Raising the income levels of the poor will stimulate an overall increase in the demand for locally produced necessity products whereas the rich tend to spend more of their additional incomes on imported luxury goods.

A reduction of mass poverty can stimulate healthy economic expansion by acting as a powerful material and psychological incentive to widespread public participation in the development process.

It can be concluded that promoting rapid economic growth and reducing poverty are not mutually conflicting objectives. The first figure above shows the cross-country evidence. It shows that the higher the per capita income in the country, the higher the average income of the poor; that is, the poverty gap falls as the overall income per capita in the economy rises. The second one shows the relationship between per capita income growth and the growth rates of incomes of the poor. The close relationship between economic growth and progress among the poor does not by itself indicate causality. Some of the effect may run from improved incomes, education, and health among the poor to faster overall growth. Whatever the causality, it is clear that growth and poverty reduction are entirely compatible objectives.

Economic Characteristics of Poverty Groups

After seeing a larger picture of the income distribution and poverty problem in developing countries, we somewhat, understand that the magnitude of absolute poverty results from a combination of low per capita incomes and highly unequal distributions of that income. We can now clearly see that for any given distribution of income, the higher the level of per capita income, the lower the numbers of absolutely poor. On the contrary, higher levels of per capita income are no guarantee of lower levels of poverty. So how are we going to formulate effective policies and programs to attack the main source of poverty? We need some specific knowledge of these poverty groups and their economic characteristics.

Rural Poverty

Maybe most of the valid generalization about the poor is that they are disproportionately located in rural areas, that these poor people are primarily engaged in agricultural and associated activities, that they are more likely to be women and children than adult males, and they are often concentrated among minority ethnic groups and indigenous people. Data from developing countries support these generalizations.

To illustrate, about 2/3 of the very poor get their livelihood from subsistence agriculture. They may be either small farmers or as a low paid farm workers. The remaining

1/3 are also located in rural areas but engaged in petty service, and others are located on the fringes and in marginal areas of urban areas where they engage in various forms of self-employment such as street-hawking, trading, petty services and small-scale business. In most countries, there had been a lack of concentration on absolute poverty. Most government expenditures had been directed to urban areas where modern manufacturers and commercial sectors are in. Whether in the realm of directly productive economic investments or in fields of education, health, housing and other social services, the urban areas or the modern sector are bias in government expenditures. This has been in the core of development problems. It must be pointed out in that scenario that a large number of very poor people in the rural areas, there must be a policy or programs to alleviate poverty that must be directed to rural development.

Women and Poverty

Women make up a substantial majority of the world's poor. Compared to the lives of the inhabitant of poorest communities in the developing world, it can be seen that women and children experiences the harshest deprivation. They are more likely to be poor and malnourished and in need of much medical services, clean water, sanitation and other benefits. They have also less access to education, formal-sector employment, social security and government employment programs. In the past decade the number of women living in poverty has increased disproportionately to the number of men, particularly in the developing countries. In addition to economic factors, the rigidity of socially ascribed gender roles and women's limited access to power, education, training and productive resources are also responsible. While poverty affects households as a whole, because of the gender division of labor and responsibilities for household welfare, women bear a disproportionate burden, attempting to manage household consumption and production under conditions of increasing scarcity.

Ethnic Minorities, Indigenous Populations, and Poverty

Poverty falls especially heavily on minority ethnic groups and indigenous groups. Forty percent of the world's nation-states have more than ethnic populations which faces serious economic, political and social discrimination.

The Range of Policy Options

Developing countries that aim to reduce poverty and excessive inequalities in their distribution of income need to know how best to achieve their aim. What kind of economic and other policies might less developed countries governments adopt to reduce poverty and inequality while maintaining or even accelerating economic growth rates?

Areas of Intervention

There are four broad areas of possible government policy intervention. It corresponds to the four major elements in the determination of a developing economy's distribution of income.

Altering the functional distribution – the returns to labor, land and capital as determined by factor prices, utilization levels, and the consequent shares of national income that accrue to the owners of each factor.

Mitigating the size distribution – the functional income distribution of an economy translated into a size distribution by knowledge of how ownership and control over productive assets and labor skills are concentrated and distributed throughout the population. The distribution of these asset holdings and skill endowments ultimately determines the distribution of personal income.

Moderating (reducing) the size distribution at the upper levels –through progressive taxation of personal income and wealth. Such taxation increases government revenues.

Moderating (increasing) the size distribution at the lower levels – through public expenditures of tax revenues to raise the incomes of the poor either directly or indirectly.

Options and alternative possible policies that would address the four areas of interventions:

- Changing relative factor prices
- Progressive redistribution of asset ownership
- Progressive taxation
- Transfer payments and public provision of goods and service

Policies options to reduce poverty

There are two major types of poverty:

- Absolute poverty – when people have insufficient income to afford the basic necessities of life, such as food, rent and clothing.
- Relative poverty – when people have income significantly less than the average income for society.

In a developed country, absolute poverty is generally very rare. However, relative poverty is a significant problem. Policies to reduce relative poverty in a developed economy, could focus on.

Sustained Economic Growth

The argument is that promoting economic growth, increases total income in society, creating more jobs and income, which could be redistributed. In the past 100 years, economic growth has been a major factor in reducing the levels of poverty which were seen in pre-war Britain. However, it is not necessarily the case that income and wealth will trickle down to the poorest. There is a concern that economic growth could widen relative poverty because it benefits the highly skilled and wealthy classes more than those at the bottom. See: Inequality and economic growth

Reduce Unemployment

Unemployment is a major cause of poverty because the unemployed have little income, relying on state benefits. Unemployment can be reduced through both supply Side and demand side policies.

Progressive Taxes

Increasing progressive taxes, such as the higher rate of income tax from 40% to 50%, will take more income from those on high income levels. This enables cuts in regressive taxes and increased benefits which help increase the income of the poor. This can be an effective way for reducing relative poverty.However, critics argue higher income taxes create a disincentive to work, leading to less output. This is because higher tax makes work less attractive and reduces the opportunity cost of leisure. Therefore people work less and enjoy more leisure. This is known as the substitution effect. Similarly higher corporation tax may discourage investment in the UK

However this is disputed by other economists. Higher tax reduces incomes and this may encourage people to work more, to maintain their income. (This is known as the income effect) Evidence suggests that higher income tax has little incentive on the supply of labor, suggesting labor supply is relatively inelastic. However, it also depends at what level income tax is set. There is certainly a level where higher income tax will reduce incentives to work. Other problems with increasing income tax, include tax evasion and the fact firms may adjust wages to compensate for the higher taxes.

Increasing benefits to the poor

Means tested benefits involve increasing welfare benefits to those on low incomes. For example, universal tax credit or child benefit.

- Advantages of means tested benefits: They allow money to be targeted to those who need it most. e.g family tax credit or pension credit. It is cheaper than universal benefits and reduces the burden on the tax payer. However the problem with using benefits to reduce poverty include: Means tested benefits are often unpopular because people are stigmatized as being poor. Also it may create a disincentive to earn a higher wage, because if you do get a higher paid job you will lose at least some of your benefits and pay more tax. This is known as “the benefit trap” or the “poverty trap”. The poverty trap occurs where people on low incomes are discouraged from working extra hours or getting a higher paid job because any extra income they earn will be taken away in lost benefits and higher taxes. To avoid the poverty trap the government can grade benefits so that there isn’t an immediate cut off point. Some relatively poor may fall just outside the qualifying limit. Also not everyone entitled to means tested benefit will collect them because of ignorance or difficulties in applying. The government used to prefer universal benefits because it avoided the above problem, and people feel if they contribute towards taxes they deserve their benefits regardless of their wealth. However in recent years, the welfare state has faced increased demands due to demographic factors leading to more calls for means tested benefits.

National Minimum Wage

The government could increase the national minimum wage. This is an effective way of increasing the incomes of the low paid, and therefore reducing wage inequality. However, the problem is that it may cause unemployment because firms may not be able to afford the workers. If it does cause unemployment, poverty could worsen. However, if firms have monopsony power then they will be able to afford higher wages. A related concept is the Voluntary Living Wage – an attempt to encourage firms to pay higher wages.

Benefits in kind

These are important public services which are provided free at the point of use (or subsidized). They mainly involve education and health care. Free education enables those from low income families to gain skills and qualifications which can help lead to better jobs and higher incomes in the future.

Universal basic income (UBI)

A universal basic income or citizen’s income involves giving every citizen a weekly benefit – regardless of circumstances and income. The idea is to ensure everyone has a minimum income guarantee, but without any disincentives of losing means tested benefits from working more. See more at: Universal basic income (UBI)

Policies to reduce poverty in developing economies

To reduce poverty in developing economies, the focus may be on different policies.

1. Education – greater spending on education and training can enable higher skilled workforce
2. Aid – aid from developed countries can be used to invest in better health care and education. However, some argue aid can encourage dependency.
3. Diversification of economy away from agriculture to manufacturing. This enables greater economic development, but may be difficult to do without the right skills and infrastructure.

Questions

What is the extent of relative inequality, and how is this related to the extent of poverty?

Who are the poor?

Who benefits from economic growth?

Does rapid growth necessarily cause greater income inequality?

Do the poor benefit from growth?

UNIT II

The Agricultural Sector

Role of Agriculture in the Economic Development

India is an agricultural country. The Indian economy is basically agrarian. In spite of economic development and industrialization, agriculture is the backbone of the Indian economy. As Mahatma Gandhi said, "India lives in villages and agriculture is the soul of Indian economy". Nearly two-thirds of its population depends directly on agriculture for its livelihood. Agriculture is the main stay of India's economy. It contributes about 26 percent of the gross domestic product. Agriculture meets food requirements of the people and produces several raw materials for industries.

From agricultural point of view, India is a unique country. It has vast expanse of level land, rich soils, wild climatic variations suited for various types of crops, ample sunshine and a long growing season. The net sown area in India today is about 143 million hectares. India has the highest percentage of land under cultivation in the world. In spite of the fact that large areas in India, after independence, have been brought under irrigation, only one-third of the cropped area is actually irrigated. The productivity of agriculture is very low. Farming depends mainly upon monsoon rain. Most of the production comprises food crops. About one-third of the land holdings are small, less than one hectare in size. Farmers own their own small prices of land and grow crops primarily for consumption. Even storage facilities for crops are inadequate. Now use of pesticides and fertilizers has increased and large areas have been brought under high yielding variety of seeds. This led to green revolution in several parts of India. This has helped in increasing yields per hectare as well as total production of different crops.

There are many reasons responsible for the low productivity of agriculture. About one-third of land holdings are very small less than one hectare in size. Due to small size of land holdings we cannot use modern way of cultivation. Even today the farmers are using very old methods, tools and implements for fanning. Farmers are not using artificial ways of cultivation. Inputs like-better quality of seeds, fertilizers and pesticides are also not used by most of the farmers. Exploitation of marginal farmers is also responsible. There is also low productivity because of increasing pressure on land and absence of bank credit.

Agriculture is the backbone of our Indian economy. Agricultural development is a precondition of our national prosperity. It is the main source of earning livelihood of the people. Nearly two-thirds of its population depends directly on agriculture. Agriculture provides direct employment to 70 percent of working people in the country. It is the main stay of India's economy.

Apart from those who are directly involved in the agrarian sector, a large number of the population is also engaged in agro-based activities. Agriculture meets the foods requirements of large population of India. It ensures food security for the country. Substantial increase in the production of food grain like-rice, wheat etc. and non-food grains like-tea, coffee, spices, fruits and vegetables, sugar, cotton etc. has made India self-sufficient. Agriculture also contributes to the national income of our country. It accounts for 26 percent of the gross domestic product. The growth of most of the industries depends on agriculture. It produces several materials for industries. It forms the basis of many industries of India like-cotton, textile, jute, sugar industries etc by providing cotton, sugarcane, oilseeds etc. People engaged in agriculture also buy the products of industries like-tractors, pesticides, fertilizers, pump-set etc. Agriculture contributes in foreign exchange of our country. India exports agricultural products like tea, coffee, sugar, tobacco, spices etc and earns foreign currency. Exports from the agricultural sector have helped India in earning valuable foreign exchange and thereby boosting economic development. From above mentioned facts it is very clear that in spite of industrial development still agriculture is the backbone of the Indian economy.

The Five-year Plans accorded priority to the agricultural sector. In the past 50 years the food grain production in the country increased substantially from 51 million tonnes in 1950-51 to 209 million tonnes in 1999-2000. Inspite of the constant rise of population, we have been able to built a food stock of 44.7 million tonnes in 2001. This is because of the technological and institutional reforms in our country. The Indian government took several steps to improve the agricultural condition in the country. The government has encouraged consolidation of land holdings to promote use of modern farm machines. Land reforms were introduced. The government took lands of big land owners away and redistributed to landless labourers. The government abolished the Zamindari System. Modern methods of cultivation were introduced in the country. The government provided better infrastructure facilities such as irrigation, electricity and transportation. Agricultural equipments such as tractors, pump harvesters, fertilizers, pesticides were made available to farmers. Getting finance from banks was made easier for the farmers. The crop insurance was another step to protect the farmers against losses caused by crop failure on account of natural calamities like drought, flood cyclone etc. High-yielding varieties of seeds, fertilizers and irrigation gave birth to Green Revolution. All these led to tremendous increase in the production of crops.

The country on an average has enough in stock to meet the food requirements of its citizens. India has emerged as the largest producer of coconut, ginger, cashew nut, black-peeper and as the second largest producers of fruits and vegetables. The productivity of the land has increased through the years, but has not reached international productivity levels. Indian agriculture has diversified into various sectors and contributes significantly to the nation's economy. But this situation is not likely to remain so easy in the years to come. The population of India is likely to be around 1300 million. This would require a huge amount of food grains along with non-food grains. India has to use its vast potential of agriculture in a systematic and planned manner.

Importance of Agriculture in the Indian Economy

In India, the agricultural sector occupies a vital position in the overall economy of the country as would be clear from the following:

i. Share of Agriculture in National Income:

Agriculture has got a prime role in Indian economy. Though the share of agriculture in national income has come down, still it has a substantial share in GDP. The contributory share of agriculture in Gross Domestic Product was 55.4 percent in 1950-51, 52 percent in 1960-61 and is reduced to 18.5 percent only at present. The share of the agricultural sector's capital formation in GDP has declined from 2.2 percent in the late-1999s to 1.9 per cent in 2005-06.

ii. Important Contribution to Employment:

Agriculture sector, at present, provides livelihood to 65 to 70 per cent of the total population. The sector provides employment to 58.4 per cent of country's workforce and is the single largest private sector occupation.

iii. Important Source of Industrial Development:

Various important industries in India find their raw material from agriculture sector - cotton and jute textile industries, sugar, vanaspati, etc. are directly dependent on agriculture. Handlooms, spinning oil milling, rice thrashing, etc. are various small scale and cottage industries, which are dependent on agriculture sector for their raw material. This highlights the importance of agriculture in industrial development of the nation.

iv. Importance in International Trade:

India's foreign trade is deeply associated with agriculture sector. Agriculture accounts for about 14.7 per cent of the total export earnings. Besides, goods made with the raw material of agriculture sector also contribute about 20 per cent in Indian exports. In other words, agriculture and its related goods contribute about 38 per cent in total exports of country.

In short, agriculture occupies a central place in the Indian economy. Its performance sets the pace of growth in the economy as a whole. It should, however, be noted that Indian agriculture is still in the state of backwardness, the per capita productivity in agriculture is less than in industry

The major role of agriculture in economic development of a country are as follows:

Agricultural sector plays a strategic role in the process of economic development of a country. It has already made a significant contribution to the economic prosperity of advanced countries and its role in the economic development of less developed countries is of vital importance. In other words, where per capita real income is low, emphasis is being laid on agriculture and other primary industries.

"Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, lead to an increased demand in industrial production"-Dr. Bright Singh.

The history of England is clear evidence that Agricultural Revolution preceded the Industrial Revolution there. In U.S.A. and Japan, also agricultural development has helped to a greater extent in the process of their industrialization. Similarly, various under-developed countries of the world engaged in the process of economic development have by now learnt the limitations of putting over-emphasis on industrialization as a means to attain higher per capita real income. "Thus industrial and agricultural developments are not alternatives but are complementary and are mutually supporting with respect to both inputs and outputs."

It is seen that increased agricultural output and productivity tend to contribute substantially to an overall economic development of the country, it will be rational and appropriate to place greater emphasis on further development of the agricultural sector.

According to Prof. Kinderberger, Todaro, Lewis and Nurkse etc., agriculture makes its contribution to economic development in several ways, viz.,:

1) By providing food and raw material to non-agricultural sectors of the economy,
2) By creating demand for goods produced in non-agricultural sectors, by the rural people on the strength of the purchasing power, earned by them on selling the marketable surplus,
3) By providing investable surplus in the form of savings and taxes to be invested in non-agricultural sector,

4) By earning valuable foreign exchange through the export of agricultural products,

5) Providing employment to a vast army of uneducated, backward and unskilled labour. As a matter of fact, if the process of economic development is to be initiated and made self-sustaining, it must begin for agricultural sector.

Role of Agriculture in Economic Development:

The agriculture sector is the backbone of an economy which provides the basic ingredients to mankind and now raw material for industrialization.

Therefore, the role of agriculture for the development of an economy may be stated as below:

1. Contribution to National Income:

The lessons drawn from the economic history of many advanced countries tell us that agricultural prosperity contributed considerably in fostering economic advancement. It is correctly observed that, "The leading industrialized countries of today were once predominantly agricultural while the developing economies still have the dominance of agriculture and it largely contributes to the national income. In India, still 28% of national income comes from this sector.

2. Source of Food Supply:

Agriculture is the basic source of food supply of all the countries of the world—whether underdeveloped, developing or even developed. Due to heavy pressure of population in underdeveloped and developing countries and its rapid increase, the demand for food is increasing at a fast rate. If agriculture fails to meet the rising demand of food products, it is found to affect adversely the growth rate of the economy. Raising supply of food by agricultural sector has, therefore, great importance for economic growth of a country.

Increase in demand for food in an economy is determined by the following equation:

$D = P + 2g$

Here,

D- stands for Annual Rate of Growth in demand for food.

P -stands for Population Growth Rate.

g -stands for Rate of Increase in per Capita Income.

2 -stand for Income Elasticity of Demand for Agricultural Products.

3. Pre-Requisite for Raw Material:

Agricultural advancement is necessary for improving the supply of raw materials for the agro-based industries especially in developing countries. The shortage of agricultural goods has its impact upon on industrial production and a consequent increase in the general price level. It will impede the growth of the country's economy. The flour mills, rice shellers, oil & dal mills, bread, meat, milk products sugar factories, wineries, jute mills, textile mills and numerous other industries are based on agricultural products.

4. Provision of Surplus:

The progress in agricultural sector provides surplus for increasing the exports of agricultural products. In the earlier stages of development, an increase in the exports earning is more desirable because of the greater strains on the foreign exchange situation needed for the financing of imports of basic and essential capital goods.

Johnson and Mellor are of the opinion, "In view of the urgent need for enlarged foreign exchange earnings and the lack of alternative opportunities, substantial expansion of agricultural export production is frequently a rational policy even though the world supply—demand situation for a commodity is unfavorable."

5. Shift of Manpower:

Initially, agriculture absorbs a large quantity of labour force. In India still about 62% labour is absorbed in this sector. Agricultural progress permits the shift of manpower from agricultural to non-agricultural sector. In the initial stages, the diversion of labour from agricultural to non-agricultural sector is more important from the point of view of economic development as it eases the burden of surplus labour force over the limited land. Thus, the release of surplus manpower from the agricultural sector is necessary for the progress of agricultural sector and for expanding the non-agricultural sector.

6. Creation of Infrastructure:

The development of agriculture requires roads, market yards, storage, transportation railways, postal services and many others for an infrastructure creating demand for industrial products and the development of commercial sector.

7. Relief from Shortage of Capital:

The development of agricultural sector has minimized the burden of several developed countries who were facing the shortage of foreign capital. If foreign capital is available with the 'strings' attached to it, it will create another significant problem. Agriculture sector requires less capital for its development thus it minimizes growth problem of foreign capital.

8. Helpful to Reduce Inequality:

In a country which is predominantly agricultural and overpopulated, there is greater inequality of income between the rural and urban areas of the country. To reduce this inequality of income, it is necessary to accord higher priority to agriculture. The prosperity of agriculture would raise the income of the majority of the rural population and thus the disparity in income may be reduced to a certain extent.

9. Based on Democratic Notions:

If the agricultural sector does not grow at a faster rate, it may result in the growing discontentment amongst the masses which is never healthy for the smooth running of democratic governments. For economic development, it is necessary to minimize political as well as social tensions. In case the majority of the people have to be kindled with the hopes of prosperity, this can be attained with the help of agricultural progress. Thus development of agriculture sector is also relevant on political and social grounds.

10. Create Effective Demand:

The development of agricultural sector would tend to increase the purchasing power of agriculturists which will help the growth of the non-agricultural sector of the country. It will provide a market for increased production. In underdeveloped countries, it is well known that the majority of people depend upon agriculture and it is they who must be able to afford to consume the goods produced.

Therefore, it will be helpful in stimulating the growth of the non- agricultural sector. Similarly improvement in the productivity of cash crops may pave the way for the promotion of exchange economy which may help the growth of non-agricultural sector. Purchase of industrial products such as pesticides, farm machinery etc. also provide boost to industrial dead out.

11. Helpful in Phasing out Economic Depression:

During depression, industrial production can be stopped or reduced but agricultural production continues as it produces basic necessities of life. Thus it continues to create effective demand even during adverse conditions of the economy.

12. Source of Foreign Exchange for the Country:

Most of the developing countries of the world are exporters of primary products. These products contribute 60 to 70 per cent of their total export earning. Thus, the capacity to import capital goods and machinery for industrial development depends crucially on the export earning of the agriculture sector. If exports of agricultural goods fail to increase at a sufficiently high rate, these countries are forced to incur heavy deficit in the balance of payments resulting in a serious foreign exchange problem.

However, primary goods face declining prices in international market and the prospects of increasing export earnings through them are limited. Due to this, large developing countries like India (having potentialities of industrial development) are trying to diversify their production structure and promote the exports of manufactured goods even though this requires the adoption of protective measures in the initial period of planning.

13. Contribution to Capital Formation:

Underdeveloped and developing countries need huge amount of capital for its economic development. In the initial stages of economic development, it is agriculture that constitutes a significant source of capital formation.

Agriculture sector provides funds for capital formation in many ways as:

a) agricultural taxation,
b) export of agricultural products,
c) collection of agricultural products at low prices by the government and selling it at higher prices. This method is adopted by Russia and China,
d) labour in disguised unemployment, largely confined to agriculture, is viewed as a source of investible surplus,
e) transfer of labour and capital from farm to non-farm activities etc.

14. Employment Opportunities for Rural People:

Agriculture provides employment opportunities for rural people on a large scale in underdeveloped and developing countries. It is an important source of livelihood. Generally, landless workers and marginal farmers are engaged in non-agricultural jobs like handicrafts, furniture, textiles, leather, metal work, processing industries, and in other service sectors. These rural units fulfill merely local demands. In India about 70.6% of total labour force depends upon agriculture.

15. Improving Rural Welfare:

It is time that rural economy depends on agriculture and allied occupations in an underdeveloped country. The rising agricultural surplus caused by increasing agricultural production and productivity tends to improve social welfare, particularly in rural areas. The living standard of rural masses rises and they start consuming nutritious diet including eggs, milk, ghee and fruits. They lead a comfortable life having all modern amenities a better house, motor-cycle, radio, television and use of better clothes.

16. Extension of Market for Industrial Output:

As a result of agricultural progress, there will be extension of market for industrial products. Increase in agricultural productivity leads to increase in the income of rural population which is turn leads to more demand for industrial products, thus development of industrial sector.

According to Dr. Bright Singh, "Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, lead to an increased demand in industrial production." In this way, agricultural sector helps promote economic growth by securing as a supplement to industrial sector.

Conclusion:

From the above cited explanation we conclude that agricultural development is a must for the economic development of a country. Even developed countries lay emphasis on agricultural development. According to Muir, "Agricultural progress is essential to provide food for growing non-agricultural labour force, raw materials for industrial production and saving and tax revenue to support development of the rest of the economy, to earn foreign exchange and to provide a growing market for domestic manufactures."

Exercise Questions

1) Approx __ % of Indian population is still Agriculturist.
   - **a)** 46%
   - **b)** 50%
   - **c)** 58%
   - **d)** 64% Ans: C

2) *The best indicator of economic development of any country is ?*
   - a) Its agriculture
   - b) Its transport
   - c) Its gross production
   - d) Its per capita income Ans: D

3) ***How do economists measure economic development?***

Land Reforms

Changes brought about in the agrarian structure through direct intervention by the state are characterized as land reforms. It refers to all kinds of policy induced changes relating to the ownership of land, tenancy, and management of land. The significance of land reforms arises from the defects of the prevalent agrarian structure. In this context, it will be proper to have a look at the agrarian structure that obtained on the eve of independence.

Agrarian structure on the Eve of Independence

At the time of independence India inherited a semi feudal agrarian structure with onerous tenure arrangements over substantial areas . There were three types of land tenure systems prevailing in the economy viz. the Zamindari system, the Mahalwari system and the Ryotwari system.

Under the **Zamindari** system, the landlord is simply the provider of land and the tenant provides all the management and labour. The landlord gets the pre-determined share of the produce. The landlord is responsible for the payment of land revenue to the state. The actual tiller does not come into contact with the state. The landlord acts as an intermediary.

Under the **Mahalwari** system land is maintained by a collective body; usually the village serves as a unit of management. Revenue is collected from them, the responsibility of paying revenue to the state rests with the village.

Under the **Ryotwari** system, every individual registered, and holder is recognized as the proprietor of land and is responsible for the payment of land revenue to the Government. The Ryot possess the right to sub let his land or to transfer the land by gift, sale or mortgage. A ryot cannot be ejected by the Government till he pays his land revenue.

Objectives

It was basically to stop exploitation of the actual tiller of the soil and pass on the ownership of land to them that land reforms were introduced in the post –independence period in India. The major objectives of land reforms in India are as follows.

1. Restructuring of agrarian relations to achieve egalitarian social structure.
2. Elimination of exploitation in land relations.
3. Actualisation of the goal of “land to the tiller”
4. Improving the socio, economic conditions of the rural poor by widening their land base.
5. Increasing agricultural production and productivity.
6. Infusion of a greater measure of equality in local institutions.

For the fulfillment of these objectives, the major steps adopted under the land reforms programme are as follows:

1. **Abolition of intermediaries**
2. **Tenancy reforms**:- (a) regulation of rent (b) security of tenure and (c)conferment of ownership rights for tenants
3. **Reorganisation of agriculture**:- (a) redistribution of land (b) consolidation of holdings and (c) Co-operative farming

Progress of Land Reforms

1. **Abolition of the Zamindari System**

The Zamindari system manifested absentee landlordism at its worst and was largely responsible for the continuously deteriorating condition of tenant farmers. This system led to the exploitation and moral degradation of the tiller. Immediately after independence, a strong voice was raised against these vested interests in land. As a result, a high priority was given to the abolition of the Zamindari system. Accordingly, by 1952, necessary legislation had been enacted in all the states. As a result of the abolition of intermediaries more than 2 crore cultivators have been brought under direct relationship with the state. A considerable area of cultivable wastelands and private forests belonging to the intermediaries have been vested in the state. This has facilitated the distribution of 57.7 lakh hectares to landless agriculturists.

2. **Tenancy Reforms**

Tenants can be classified into (a) occupancy tenants, (b) tenants at will, and (c) subtenants. The rights of the tenancy of the occupancy tenants are permanent and heritable. Hence, the occupancy tenants do not face the fear of eviction so long as they pay rent on time. But the position of tenants-at-will and sub-tenant is very precarious ; since such tenants depend on the mercy of land lords. Hence, special laws had to be enacted and implemented to protect these tenants. These laws relate to (i) regulation of rent (ii) security of tenure and (iii) conferment of ownership rights on tenants.

(i) Regulation of rent : During the pre-independence period, rents were fixed either by custom or were the result of market forces of demand and supply. The rate of rent prevalent were one-half of the produce which were considered excessive by any standard of social justice. Consequently, the first and second plans recommended that rents should not exceed one-fourth or one-fifth of the gross produce. Accordingly, various states have passed necessary legislation in this regard, but there were variations in the rates of rent fixed in different states.

(ii) Security of tenure: Legislations have been passed in most of the states to protect tenants from ejectment and grant them permanent rights in the land. The purpose of these legislations is to ensure that (a) ejectment are lawful (b) land resumed by an owner is only for personal cultivation, and (c) the tenant is assured of a prescribed minimum area in case of resumption. Due to the enactment of tenancy legislation, Indian tenants have acquired security in only 9 percent of total cultivated area of the country.

(iii) Conferment of ownership rights: Legislative provisions have been made in many states for conferment of ownership rights on tenants or allowing cultivating tenants to acquire ownership rights on payment of compensation. It has been estimated that as a result of laws conferring ownership rights on tenants in various states, approximately 12.42 million tenants have acquired ownership rights over 6.32 million hectares of land.

3. **Reorganisation of Agriculture:**

It includes (i) ceiling on agricultural holdings (ii) consolidation of holdings and , (iii) Co-operative farming

(i) Ceiling on Agricultural Holdings:

By ceiling on land holdings, we mean the fixing of the maximum size of holdings that an individual cultivator or an household may possess. The basic aim of ceiling is to accomplish the elimination of excess ownership of land. In this system, the land over and above the permissible limit for personal cultivation would be taken over by the state. The surplus land is distributed among the landless labourers and small and marginal farmers.

To bring uniformity in land ceiling policies a conference of Chief Ministers was held in 1972. The main features of the new policy were as follows.

1. Lowering of ceilings to 18 acres of irrigated land and 54 acres of unirrigated land.
2. Making family and not the individual as the unit for determining land holding.
3. Lowering ceiling for a family of 5.
4. Declaring binami transaction null and void.
5. Including the land reform laws in the Ninth Schedule of the constitution.

In the light of new policy, land ceiling legislations were enacted by all the states, except Goa and the North East Region. However ,the success has been limited due to poor enforcement. The committee on state Agrarian Relations and the Unfinished Task in Land Reform points out that the potential of ceiling surplus land was approximately 210 lakhs hectares. As against it, the declared surplus has been put at only 27 lakh hectares. Out of this states have taken possession of 23 lakhs hectares and distributed only 19 lakh hectares among 55 lakh households.

(ii) Consolidation of Holdings:

Consolidation of fragmented agricultural land has been an integral part of the land reform policy. By consolidation of holdings, we mean bringing together into one compact block scattered fragments of land of a cultivator. Initially the programme of consolidation was started on a voluntary basis but was later made compulsory. Recognizing the importance of consolidation, legislations have been passed in most of the states to prevent sub division and fragmentation of land. However ,progress under the programme has been very slow. As on March 31,2002 consolidation of holdings had taken place only in an area of 66.10 million hectares against a total cultivable area of 142 million hectares. In fact ,only 15 states have passed laws of consolidation.

(iii) Co-operative Farming :

Co-operative farming has been one of the major objectives of the land reforms programme in India. By developing Co-operative farming the small holdings will be pooled and cultivated jointly to increase the size of the operational unit. Four kinds of Co-operative farming were identified by the Co-operative Planning Committee. These are (i) Co-operative collective farming, in which members have to give up their land forever but are paid wages and gain a share in the surplus produces. (ii) Co-operative tenant farming ,in which land owned by a society is divided into holdings and then distributed among them. Each farmer has to pay a rent for his portion of land. However, the produce of his holdings is entirely his own. (iii) Co-operative better farming where farmer get together to perform agricultural activities with improved methods but on their own separate lands; and (iv) Co-operative joint farming where in small farmers pool their lands together for better cultivation without giving up the ownership of their lands.

Co-operative farming in India has not been a success.

4. Land Records :

Correct and up-to-date land records are an essential condition for effective implementation of land reforms programme. It is also necessary to ensure smooth flow of credit and agricultural inputs to land holders. Land records are now being computerized throughout the country, although the progress is slow.

Impact of Land Reforms

India's achievement in the field of land reforms have been praiseworthy which may be described as follows:

The abolition of exploitative agrarian relation- marked by intermediary tenures-was the first and foremost task of the country after independence. This task has been accomplished in an appreciable manner. Zamindari and all intermediaries were completely abolished by the end of the First plan. It has been estimated in all about 173 million acres of land were acquired from the intermediaries. As a result, about two crore tenants were brought into direct relationship with the government.

As regards tenancy reforms , nearly 124.22 lakh tenants got their rights protected over an area of 156.30 lakhs acres by September 2000. The total quantum of land declared surplus in the entire country in 73.49 lakh acres in September 2000, out of which about 64.84 lakh acres were taken possession of and 52.99 lakh acres distributed to 55.10 lakh beneficiaries. About 147.47 lakh acres of public waste land have been distributed among the poor so far. Further, a total of 39.19 lakh acres of land was acquired under Bhoodan land. As far as a consolidation of fragmented agricultural land holdings in concerned, an area of 1633.47 lakh acres has been consolidated all over the country so far. As regards updating and maintenance of land records, the computerization of land records scheme is being implemented in 554 districts of the country. Co-operative farming has failed to serve the end.

Evaluation :

An evaluation of the implementation of land reforms brings out that land reforms in India achieved only a partial success. Whereas legislation succeeded in the matter of abolition of intermediaries, other objective of land reforms namely tenancy reforms and ceilings on landholdings were only partially realized. The partial success of land reforms is attributable to the fact that the reform measures were generally promulgated by ruling elites composed of the upper echelons of agrarian society.

The distribution of land has remained much skewed despite the enactment of legislation for land reforms. The Indian rural scene is characterized by extreme inequality in land and asset distribution. The latest data brings out that the concentration ratios of both the ownership and the operational holdings continue to be very high. Some other adverse socio political consequences have also followed because of partial implementation of land reforms. According to Joshi, "it served primarily the richer peasants rather than the rural poor". One such consequence is the emergence of a well to do peasantry as a powerful and political force in the rural areas.

Reasons for poor performance:

The reasons for the poor performance of land reforms programmes in India can be studied under three broad heads:- legislative snags , lack of political will, and bureaucratic apathy.

(a) Legislative snags : These include the following

(i) Definition of personal cultivation: personal cultivation should have meant cultivation by one's personal labour. Personal supervision was generally considered a part of personal cultivation. Such an interpretation of personal cultivation led to a large scale transfer of land by the land lords to their family members to escape the laws relating to land ceiling. This reduced the effectiveness of ceiling laws.

(ii) Inadequate definition of tenant :in some states, sharecroppers and oral informal tenancies are not accorded the status of tenants. Therefore, laws relating to tenancy reform are not effective in protecting their rights.

(iii) The problem of voluntary surrender: The laws related to tenancy reforms cannot help tenants if they surrender their land voluntarily. This provision provided the landlords an opportunity to use their muscle and money power against the poor tenants, thereby forcing the latter to evict their lands voluntarily.

(iv) Inadequate ceiling laws: The levels of ceiling were different in different states. This created a lot of confusion and disputes. The list of exemption from ceiling was also unduly large.

(b) Lack of political will power:

Bringing reform in the age-old agrarian relation requires a substantial amount of courage and determination on the part of the authorities, which is unfortunately lacking in India. Our political leadership has adopted a two faceted policy as far as land reforms are concerned, viz., expressing sympathy with the poor while still aligning with the rich.

(c) Bureaucratic apathy:

Bureaucratic apathy is also a great obstacle in the progress of land reforms. It has been observed that a number of persons in the higher echelons of the administration are substantial land owners themselves who often prefer to protect the interests of the land owning section of the society. The bureaucracy is responsible for non-implementation of land reforms measures. Hence, a politician- bureaucrat-landlord nexus has developed in the country much to the detriment of land reforms.

Other reasons:

(a) Legal hurdles : Land reform laws were defective in many ways. Legislation relating to the land reform were so full of loop holes.

(b) Absence of updated land records : Land reforms cannot succeed unless the beneficiaries can produce evidence of their rights. The position regarding records of tenancies is not satisfactory anywhere in the country and no records exist in some areas. This has been creating difficulties in the implementation of land reforms.

(c) Agrarian reforms discouraged by foreign –aid institution : Key players in the international community gave low priority to agrarian reforms as part of a strategy for addressing poverty issues and pursuing rural economic development. There were more interested in the achievement of aggregate production increases in agriculture by applying new technology in that sector.

Suggestions for improvement :

In order to implement the land reform measures successfully, the following suggestions are worth mentioning.

(a) Effective implementation

(b) Efficient administrative machinery

(c) Simplifying legal procedures

(d) Update land records

(e) Generation of awareness among potential beneficiaries, and

(f) Lessening political interference

Inter Dependence of Agriculture and Industry

In this article we will discuss about the inter dependence of agriculture and industry.

The interdependence of agriculture and industry helps the development of both the sectors. The most important aspect of this inter dependence is that the products of one serve as important inputs for the other. Growth of one sector, thus means ample supply of inputs for the other. The situation is such that a greater flow of products from one sector to other simultaneously ensures a greater return flow of inputs itself, though with some time lag. Help others to help you in brief, sums up, development.

Limits of Interdependence:

The account of the contribution of each sector to the other should not lead one to conclude that this interdependence is competing. This is not the case. Each sector uses some inputs which are not supplied by the other sector. For instance industrial sector does not depend upon the agricultural sector for supply of minerals and salts as raw materials. Much of its capital is now supplied from its own sources. It itself supplies machinery to it. Similarly agricultural sector will continue to depend upon nature for certain inputs like water supply even after industrial sector has provided it with canals and modern irrigation facilities. As use of machinery is limited in agriculture, human and animal power will continue to be important inputs for the sector. For these inputs, the agricultural sector will again depend upon itself.

Further, there are some problems which are specific to a particular sector and the development of the other sector will leave these problems untouched. What all this implies for the policy-makers is that development of one sector say, the industrial sector, will surely remove some hindrances in the way of further development of the agricultural sector. But at the same time, it should not be overlooked that there are other hindrances too which emanate from within the agricultural sector itself. These too have to be attended to. Same is the case with the industrial sector. Development of agricultural sector will not remove all the hindrances inhibiting the development of the industrial sector.

Contributions of Agriculture to Industries:

(i) Supply of raw materials to industries:

Many industries look to the agricultural sector for supply of raw material.

(ii) Supply of wage goods:

The market arrivals of food grains can be taken to represent what agriculture can spare for the non-agricultural sector as wage goods provided the market arrivals do not contain any distress sale on the part of the agriculturists. With this provision in view, we give below the market arrivals in the state of Punjab for the last 30 years or so.Punjab agriculture has developed at a much rapid pace as compared with that in the other states of the country and its rate of growth of population is one of the lowest in the country. So, there is a reason to believe that whatever is sold in the market is a genuine surplus spared by the agricultural sector.

(iii) Agriculture and foreign trade:

Though India has been importing food grains for quite sometimes after independence, it has also been exporting the products of Argo-based industries , thereby , helping the country , not only to pay for the food imports but also for other imports which includes capital goods also. It is important to note here that the major traditional exports of India are the cotton textiles, Jute textiles and tea.

(iv) Provision of market for the industrial sector:

The increasing income of the farm sector leads to an expanded demand for the consumer's goods produced in the industrial sector. Though no enquiry directly pertaining to this issue has been conducted in India, the data collected by the National Sample Survey organization does indicate that the goods produced in the industrial sector are finding their way into the consumption schedule of the rural people.

(v) Provision of capital and labour to the non-agricultural sector:

No data are available about the supply of these to inputs by the agricultural sector to the industrial sector. Since it is the agriculture which is the custodian of capital and labour in the initial stages of economic development, it can be positively asserted that, these factors have moved to the industrial sector, mainly from the agricultural sector, in initial stages of economic development in most of the countries. The contribution of the agriculturists in setting up of various industries in England, of textile industry in India and of some important industries in Japan is quite known. The statement about Indian labour that it was migratory in character and that this was because of its nexus with agriculture shows that it was agricultural sector which provided labour to the industrial sector in the initial stages of the development of the latter.

Contributions of the Industrial Sector to the Agricultural Sector:

(i) Provision of modern inputs to the agricultural sector:

One of the major contributions of the industrial sector is to provide modern input to agriculture. The inputs are in the form of fertilizers, pesticides, machinery etc.

(ii) Reduction of population pressure on land:

Data regarding transfer of population from agricultural to non agricultural sector in India does not yield an encouraging picture. Dependence of population on agriculture during the last 50 years or so has not declined to any significant extent. Growing population and a slow progress of the industrial sector are responsible for this static situation. However, the population data concerning some developed countries of Europe & that of the U.S.A., are quite illuminating in this regard.

(iii) Provision of infrastructure:

No doubt, many of the items included infrastructure serve the agricultural sector as well as the industrial sector but these are provided mainly by the industrial sector. Transport, electricity, financial institutions, health services, educational and research institutions, all owe their existence mainly to the facilities provided by the industrial sector.

Notes on Agricultural Finance and Marketing

Agricultural finance and marketing needs of the farmers can be examined from two different angles:

(i) On the basis of time and

(ii) On the basis of purpose.

On the Basis of Time:

The needs of the farmers can be classified into three categories on the basis of time:

(i) Short term.

(ii) Medium term, and

(iii) Long term.

Short-term loans are required for the purchase of seeds, fertilizers, pesticides, feeds on fodder of livestock, marketing of agricultural produce, payment of wages of hired labour are classified according to the use and kind of application as insecticides, fungicides, herbicides and other pesticides. Insecticides account for the major share of pesticides consumption in India that includes both preventive treatments, which are applied before infestation levels are known, a implementation treatments which are based on monitored infestation levels and expected crop damages. The use of pesticides in Indian agriculture was negligible in early 1950s with only 100 tones of pesticides being consumed at the beginning of the first adoption of the new agriculture strategy in mid-1960. The use of pesticides increased considerably as the new varieties are more prone to attack by pests am insects. The pesticides application in 1970-71 stood at about 24.3 thousand tones. Consumption of pesticides (technical grade material) stood at 41 thousand tones for unproductive purposes.

Period of such loans are up to 15 months. Agencies for granting such loans a the moneylenders and cooperative societies. Medium-term loans are obtained for the purchase of cattle, small agricultural implements, repair and construction of wells etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money-lenders, relatives of farmers, cooperative societies and commercial banks. Long-term loans are required for effecting] permanent improvement on land, digging tube wells,' purchase of larger agriculture implements and' machinery like tractors, harvesters etc. and repayment; of old debts. The period of such loans extends beyond; 5 years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDBS).

On the Basis of Purpose:

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

(i) Productive:

(ii) Consumption needs and;

(iii) Unproductive.

(i) Under productive needs we can include all credit requirements which directly affect agricultural productivity. Farmers need loans for the purchase of seeds, fertilizers, manures, agricultural implements, livestock, digging and repair of wells and tube wells, payment of wage, effecting permanent improvements on land, marketing of agricultural produce, etc. Repayment of these loans is generally not difficult because the very process of production generally creates the withdrawal for repayments.

(ii) Farmers often require loans for consumption as well. Institutional credit agencies do not provide loan for consumption purpose. Therefore farmers stretch their hand towards the moneylenders.

(iii) Loans are taken for unproductive purposes such as litigation, marriages, social ceremonies on birth and death of a family member, religious functions, festivals etc. Farmers take loans from Mahajans since institutional credit agencies do not give such loans.

Sources of Agricultural Finance:

This can be divided into two categories:

(i) Non-institutional sources.

(ii) Institutional sources

(i) Non-Institutional sources are the following:

(a) Moneylenders

(b) Relatives

(c) Traders

(d) Commission agents

(e) Landlords

(ii) Institutional sources:

(a) Cooperatives

(b) Scheduled Commercial Banks

(c) Regional Rural Banks (RRBs)

(a) Co operatives:

(i) Primary Agricultural Cooperative Societies (PACSs) provide short and medium term loans.

(ii) PCARDBs provide long term loan for agriculture.

(b) Commercial banks, including RRBs, provide both short and medium term loans for agriculture and allied activities.

The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agriculture credit and provides assistance to the agenciesmentioned above. The Reserve Bank of India plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations. At the time of Independence the most important source of agricultural credit were the moneylenders. In 1951 (the year when planning was initiated in the country) moneylenders accounted for as much as 71.6 per cent of rural credit. This was because there was no other source or from where the farmers could borrow money.

Hence the moneylenders exploited the poor farmers. Thus, they used to charge exorbitant interest for their loans. The moneylenders used to manipulate their accounts and force the farmers to sell their produce to them at low price. The government has therefore undertaken various steps to regulate the activities of the moneylenders. The most important move was to free the agriculturists from the clutches of the money lenders and the expansion of institutional credit to agriculture.

The Government has helped the cooperatives in a number of ways to expand their operations:

I. 14 major commercial banks were nationalised in 1969.

II. 6 more banks were nationalised in 1980.

III. In 1975 an institution was established by the government to meet the requirements of rural credit – Regional Rural Bank (RRBs).

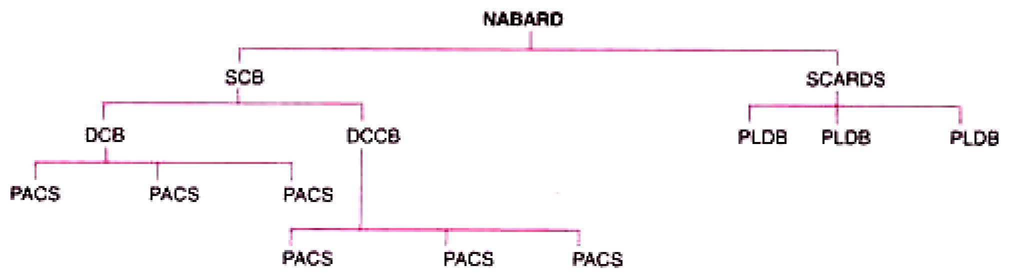
IV. In July 1982 National Bank for Agriculture and Rural Development (NABARD) was set up.

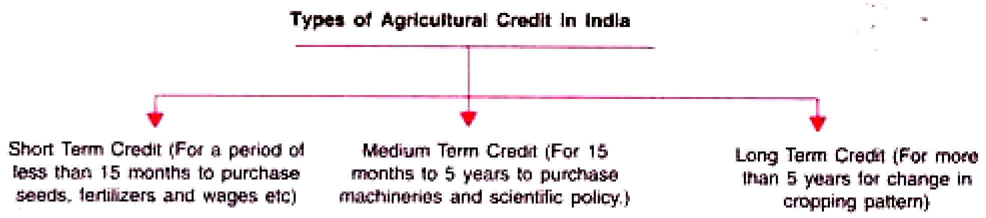
V. India now has a wide network of rural finance institution (RFI).

As a result of this massive expansion of RFIs their participation in rural credit has increased significantly while that of moneylenders has declined. Non- institutional sources of agriculture credit still remain and they offer credit at high rates of interest specially in case of unproductive purposes.

i. NABARD provides re-finance facilities to SCB, SCARDB, PACS, is PLDBs etc.

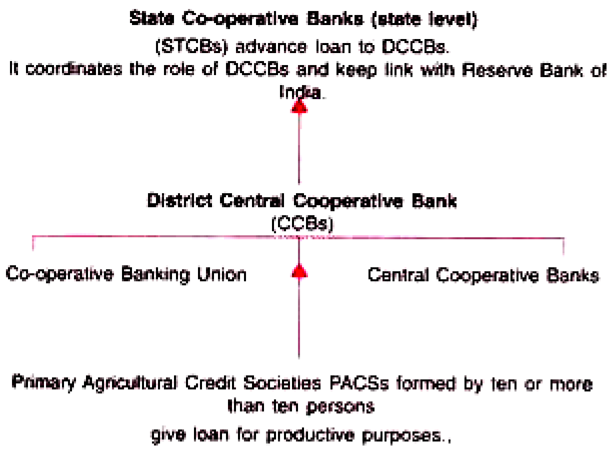
The flow of fund from NABARD to all of then-shown in the flow chart below:





Cooperative Credit Societies:

The rural co-operative credit institutions in India have been organised into short-term and long-term structures. The short-term co-operative structure is based on three-tier structures, except the states in the northeast region. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organised at the village level. At the second tier and District Central Cooperative Banks (DCCBs) organised at the district level. At the third and uppermost tier are the State Co-operative Banks (STCBs) organised at the state level state Co-operative Banks (state level).



To cater to long-term loans long-term credit cooperatives have been set up.

These are organised at two levels and categorized into four types:

1. The unitary structure in which Stat Cooperative Agricultural and Rural Development Banks (SCARDBs) operate at the state level.
2. The federal structure in which Primary Cooperative Agricultural and Rural Developments Banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDBS at the state level.
3. The mixed structure wherein both the unitary and federal types operate in one form or another.
4. The integrated structure where no separate Agricultural and rural development banks exist and the long-term credit business is undertaken by the long-term section of the StCBs concerned.

Commercial Banks:

In fact up to 1970 the government policy was to depend entirely on the cooperative banks as a major source of institutional credit in rural areas. Government felt that Cooperative Bank alone cannot meet the growing demand. Therefore Govt., policy changed and a number of institutions were developed to give rural credit. In 1969, 14 major banks were nationalised. In 1980, six more banks were nationalised. In 2004, the number of total branches had shot up to 67062, of this 32,200 in rural areas. Despite the achievement of the commercial banks in the field of rural creditmentioned above, their performance and operations have invited a lot of criticism.

Regional Rural Banks:

The Working Group on Rural Banks (1975) recommended the establishment of Regional Rural Bank (RRBs) to supplement the efforts of the commercial banks and the cooperatives in extending credit to weaker sections of the rural community, small and marginal farmers, landless labourers, artisan and other rural residents of small means. The intention in having these new banks was that there should, in the Indian context, be an institutional device which combined the local feel and familiarity with the rural problems which the cooperatives possessed and the degree of business organisation and modernised outlook which the commercial banks had, with a view to reaching the rural poor more extensively. Consequent upon the recommendations of the Working Group, 5 RRBs were initially set up in 1975. Their number later rose to 196. In 2003-04, RRBs provided Rs. 7,581 crores as credit to the agricultural sector. This was 8.7% of total institutional credit to agriculture in that year.

National Bank for Agriculture and Rural Development (NABARD):

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural credit. NABARD is now the open bank for rural credit.

Functions of NABARD (1982):

The main functions of NABARD are as follows:

1. It works as an open body to look after the credit requirement of the rural sector.
2. It has authority to oversee the functioning of ‘the cooperative sector through its Agricultural Credit Department.
3. It provides short-term credit (up to 18 months) to State Cooperative Banks for seasonal agricultural operation (crop loans), marketing of crops, purchase and distribution of fertilizers and working capital requirements of cooperative sugar factories.
4. It provides medium-term credit (18 months to 7 years) to State Co-operative Banks and RRBs for agricultural purposes purchase of shares of processing societies and conversion of short- term crop loans into medium term loans in areas affected by natural calamities.
5. It provides medium and long-term credit (not exceeding 25 years) for investment in agriculture under schematic lending to State Cooperative Banks, Land Development Banks, RRBs and commercial banks.
6. It provides long-term assistance in the form of loans to state governments (not exceeding 20 years) for contribution to share capital of cooperative credit institutions.

7. It has been entrusted with the responsibility of inspecting District and State Cooperative Banks and RRBs. The inspection of State Land Development Banks and other Federation Cooperative are undertaken on a voluntary basis.
8. It maintains a research and development fund to be used to promote research in agriculture and rural development so that projects and programmes can be formulated and designed to suit the requirement of different areas.

NABARD and Rural Credit:

It is an apex institution in the field of rural credit. Therefore it does not deal directly with farmers and other rural people. It grants credit to them through the cooperative banks, commercial banks, RRBs.

(1) NABARD provides two types of refinance. The first is extended to RRBs, and apex institutions, namely StCBs and State governments. The other type of refinance is extended to augment resources for ground level deployment of rural credit. During 2000-04, the NABARD's refinance policy on short term SAO (Seasonal Agricultural Operations) for co-operative banks and RRBs laid emphasis on augmentation of the ground level credit flow through adoption of region- specific strategies and rationalisation of lending policies and procedure.

(2) Rural Infrastructure Development Fund (RIDF) was established in 1995-96 with a corpus of Rs 2000 crore with the major objective of providing funds to state governments and state-owned corporations to enable them to complete various types of rural infrastructure projects. Loans under RIDF are given for various purposes like irrigation projects, watershed management, construction of rural roads and bridges etc.

(3) The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction cost associated with small borrowed accounts. Micro finance has emerged as a liable alternative to reach the hitherto reached for their social and economic empowerment through social and financial intermediation, it involves provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and thereby improve living standards. In operational terms, micro credit involves small loans, up to Rs 25,000, extended to the poor without any collateral for undertaking self-employment project. Such loans are provided through Micro Finance Institutions (MFIs). One of the most popular models of MFI has been the Grameen Bank model, developed originally in Bangladesh and

replicated in various parts of the world. Under this model, Non-Government Organisations (NGOs) form and develop self- help groups (SHGs) and provide credit to them.

(4) Kissan Credit Scheme was established in 1998- 99 to facilitate short-term credit to farmers.

(5) Credit Monitoring Arrangement is established with a view to providing to operative banks with more freedom and discretion to operate in an increasingly liberalised and competitive banking environment. NABARD, start in consultation with the Reserve Bank, decided to start the Credit Authorisation Scheme (CAS) with the Credit Monitoring Arrangement (CMA) with effect from the year 2000-2001.

(6) Cooperative Development Fund (CDF) was set up in 1993 with the objective of strengthening the cooperative credit institutions in the areas of organisational structure, human resource development, resource mobilisation, recovery position etc. The assistance is provided to StCBs/SCARDBs/ CCBs)/PCARDBs by way of grant or loan or both.

The following Table shows the contribution of these different sources to the total agricultural credit in India since 1951-52 to 1996.

Table 1: Borrowing of Cultivators from Different Sources (Percentages)

Sources	1951-52	1961-62	1971	1981	1995-96
Non-institutional					
1. Moneylenders	69.7	49.2	36.1	16.1	7.0
2. Traders	5.5	8.8	8.4	3.2	5.0
3. Relatives and friends	14.2	8.8	13.1	8.7	3.0
4. Landlords and others	3.3	14.5	10.7	8.8	10.0
Sub-total (1 to 4)	92.7	81.3	68.3	36.8	25.0
Institutional					
1. Government	3.1	15.5	7.1	3.9	5.0
2. Cooperatives	3.3	2.6	22.0	29.9	40.0
3. Commercial and Rural Banks	0.9	0.6	2.6	29.4	30.0
Sub-total (1 to 3)	7.3	18.7	31.7	63.2	75.0
TOTAL	100.0	100.0	100.0	100.0	100.0

It can be revealed from the above table that among all the different non-institutional sources the contribution of moneylenders was highest and that was to the extent of 69.7%. However, its contribution gradually came down to 49.2% in 1961-62 and then to 7% in 1996. Total contribution of non-institutional source towards agricultural credit has gradually declined from 92.7% in 1951-52 to 25% in 1996.

The share of institutional sources to the total agricultural credit which was 7.3% in 1951-52 gradually increased' to 18.7% in 1961-62 and then to 75% in 1996. Out of these institutional sources cooperatives contributed 40% and commercial banks contributed 30% of the total farm credit in 1996. Although the share of non- institutional sources in the rural areas decreased but still remained very important in supplying credit to the farmers. The most important development in the field of rural credit is. the setting up of NABARD in July, 1982. This is an apex bank which coordinates the functioning of different financial institutions working for the expansion of the rural credit. It is run by a Board of Directors headed by a chairman.

So far as the supply of credit to agriculture and to rural industries is concerned, this bank performs all the functions including short, medium and long-term refinancing that were previously performed by the Reserve Bank of India. The paid up capital of NABARD is wholly subscribed by the Central Government and the RBI. The NABARD played an important role in solving the problem of rural indebtedness in India. This aspect would be clear if we study the functions of NABARD, and the overall impact of all activities on Indian agriculture.

Agricultural Price Policy in India

Introduction to Agricultural Policy:

Price policy plays a pioneer role in the economic development of a country. It is an important instrument for providing incentives to farmers for motivating them to go in for production oriented investment and technology. In a developing country like India where majority of the population devotes 2/3 of its expenditure on food alone and where majority of the population is engaged in agricultural sector, prices affect both income and consumption of the cultivators. The Govt. of India announces each year procurement/support prices for major agricultural commodities and organizes purchase operations through public agencies.

Need of Agricultural Price Policy:

Undoubtedly, violent fluctuations in agricultural prices have harmful results. For instance, a steep decline in the price of particular crop in few years can inflict heavy losses on the growers of that crop. This will not only reduce the income but also dampen the spirit to cultivate the same crop in the coming year. If this happens to be a staple food item of the people, supply will remain below the demand. This will force the Govt. to fill the gap by restoring imports (in case of no buffer stock). If, on the other hand, prices of a particular crop increase rapidly in the particular period, them the consumer will definitely suffer. In case, the prices continuously increase for the particular crop, this can have disastrous effect on the sector of the economy.

Objectives of Agricultural Price Policy:

The objectives of agricultural price policy vary from country to country depending upon the place of agriculture in national economy. Generally, in developed countries, the major objective of price policy is to prevent drastic fall in agricultural income while in developing economies it is to increase the agricultural production.

However, its main objectives are summarized below:

(i) To Ensure Relation between Prices of Food-grains and Agricultural Goods:

The foremost objective of agricultural price policy is to ensure the appropriate relationship between the prices of food grains and nonfood grains and between the agricultural commodities so that the terms of trade between these two sectors of the economy do not change sharply against one another.

(ii) To Watch Interests of Producers and Consumers:

To achieve the balance between the interest of producers and consumers, price policy should keep a close eye the fluctuations within maximum and minimum limits.

(iii) Relation Between Prices of Crops:

The price policy should be such which may sustain the relationship between the prices of competing crops in order to fulfill the production targets in respect of different commodities in accordance of its demand.

(iv) To Control Seasonal Fluctuations:

Another object of price policy is to control cyclical and seasonal fluctuations of price rise to the minimum extent.

(v) Integrate the Price:

The agricultural price policy should also aim at to bring the greater integration of price between the various regions in the country so that regular flow of marketable surplus could be maintained and exports of farm products stimulated regularly.

(vi) Stabilise the General Price:

To stabilize the general price level, it should aim at increasing the public outlay to boost economic development in the country.

(vii) Increase in Production:

The agricultural price should aim at to raise the production of various commodities in the country. Therefore, it must keep balance between output and input required by the cultivations.

Major Objectives:

The important objectives of the new agricultural policy are stated below:

1. Facilities for All-Round Development:

In order to accelerate the pace of development, the new agricultural policy has set an objective to augment facilities for processing, marketing, storage, irrigation, along with development of horticulture, fisheries, biomass, livestock, sericulture etc. for all round development of agricultural sector.

2. Infrastructural Development:

The new policy favoured to make the provision for infrastructural development related to agriculture and thereby to infuse new dynamism through increased volume of public investment.

3. Revising and Strengthening Co-Operatives:

The policy also aims at reviving and strengthening Co-operatives and local communities for the development of agriculture.

4. Involvement of NGOs:

The policy also aims at involving the nongovernment organisations on a large scale for the development of agricultural sector.

5. Encouragement:

The policy aims at providing necessary support, encouragement and thrust on farming activities so that rural people accept it as a noble and viable occupation.

Features of New Agricultural Policy:

The important measures or features of new agricultural policy are summarized as under:

(i) Raising Capital Formation:

The new policy has undertaken a strategy to raise the rate of capital formation in agricultural sector as the same is maintaining a decreasing trend from 18.7 per cent of total gross capital formation in 1978- 79 to only 9.5 per cent in 1993-94. As the invisible resources are being diverted from agriculture to industry and sectors, the new policy, thus introduces measures to rechnelise available resources for productive investment in the sector. The policy will focus to create a better investment climate for the farmers by introducing a favourable price and trade regime.

(ii) Enhancing Public Investment:

In order to raise the volume of public investment, new agricultural policy will take steps to create public investment for building supportive infrastructure for agriculture. Conservation of water and use of alternative and renewable sources of energy for irrigation and other agricultural works have also been encouraged. Such enhancement of infrastructural investment will reduce the regional imbalances and generates more value added exportable surpluses.

(iii) Raising the Flow of Credit:

The policy will make an attempt to enhance the flow of credit to the agricultural sector. In this connection, the Co-operative credit societies were engaged for such purpose.

(iv) Improving Agricultural Marketing:

An attempt will be made to improve the marketing arrangement of agricultural produce through agro- processing, marketing and storage.

(v) Ensuring Remunerative Prices:

The new policy has entrusted the Government to undertake responsibility for ensuring remunerative prices of agricultural produce to the farming community by adopting necessary price support policy.

(vi) Raising Agro-Exports:

The new policy has made an attempt for harnessing the comparative natural advantage in agricultural export of the country. The policy has laid special thrust on the exports of fruits, vegetables, flowers, poultry and livestock products so as to raise the share of agricultural exports.

(vii) Land Reforms:

The new policy will make efforts to take land reform measures for the interest of small and marginal farmers and raise agricultural output.

(viii) Development of Land:

The policy has made an attempt to develop land permanently for cultivation to meet the growing needs of population. In order to develop rainfed areas of the country watershed management scheme has been given much importance so as to bring integrated development of the land.

(ix) Treating Agriculture at Par with Industry:

The steps for creating a positive trade and investment climate for agriculture and also to treat agriculture at par with industry for the purpose will be taken.

(x) Crop Insurance Scheme:

Considering the problems of crop failure and high risk of instability in production, the policy stressed for redesigning the crop and livestock insurance schemes in a comprehensive manner so that the farmers can recover their losses arising out of natural disasters.

Types of Agricultural Price Policy:

The prices favourable to the producers of agricultural products may work against the interest of the non-agricultural sector vice-versa. In fact, this has been one of the major considerations underlying the agricultural price in various countries during the course of the development of their economies. Sometimes, the prices of agricultural products as well as the agricultural inputs have been so manipulated and the ancillary fiscal and administrative policy so devised that the benefits of development of the agricultural sector were partly or wholly passed on to the industrial sector. Such a policy changed the terms of trade, against agriculture. On some other occasions, the price policy has favoured the agricultural sector at the cost of the non-agriculture sector. The two types of price policy have been called 'Negative' and 'Positive' price policies respectively.

The following paragraph discuss these two price policies in some detail:

1. Negative Price Policy:

In the context of the policy of accelerating economic growth, a "negative" agricultural price policy has been practiced by a large number of countries in the early stages of their development. The main objectives of such a policy was to keep the prices of food and raw materials relatively low (when compared with the prices of industrial products) so as to facilitate the growth of the industrial and tertiary sectors and to provide surpluses in the form of savings for these sectors. In other words, the terms of trade were purposively kept unfavourable for the agricultural sector.

2. Positive Price Policy:

In contrast to the above methods, a number of countries today follow what may be termed as the "positive" price policy which consists of light taxes on the agricultural sector and also assure the farmer of a fair price for his produce. Such a policy is considered necessary in the context of the realisation that unless the agricultural sector attains some critical minimum rate of growth, it would not be possible to attain the general targets of economic growth and development.

This is true for a number of reasons, chief among which are:

I. In most of the developing countries, agriculture continues to be the single most important sector from the points of view of generating income, employment and exports, and

II. The increasing demand for food caused by increasing population and rising money incomes can be met only by a continuously growing agricultural production.

Evaluation of Agricultural Price Policy:

The draft agricultural policy envisages 3.5 per cent annual growth in agriculture as compared to 2.6 per cent growth rate registered since independence. The draft of the National Agricultural Policy circulated for comments has secured broad agreements form all the State Government, central ministries and Agricultural Universities. But its adoption by the Government at this moment might create new problems for the Union Agriculture Ministry and the Planning Commission for its inclusion within the already launched Ninth Plan. Thus under the present circumstances, the adoption of the draft agricultural policy by the Government may take some time for making necessary adjustment with the agriculture component of the Ninth Plan.

In short the draft agricultural policy has offered a detailed framework of policy initiative required for the agricultural sector on a long term perspective. By introducing a favourable price and trade regime, the policy has created a suitable environment for the sector. The thrust of the policy is to make the sector a viable and profitable for the nation. Thus the new policy is expected to improve the quality of life in villages and can reduce the gap in the social welfare facilities between rural and urban areas and create sufficient gainful employment opportunities on a self-sustaining basis.

Moreover, new agricultural policy proposed to accord the status of industry. The new agricultural policy resolution would bestow the same benefits to agriculture as were being enjoyed by the industry but care should be taken to ensure that agriculturists were not subjected to the regulatory and tax collection machinery of the Government. Thus the draft agricultural policy was intended for the progress and welfare of farmers. The Agricultural Ministry has also given stress on drip irrigation projects so that agriculture did not suffer. Attention was also being paid to watershed management, soil conservation environment and other aspects which would benefit agriculture. Besides, the benefits of liberalisation and technology transfer should reach to the farmers.

Effects of Agricultural Price Policy:

It is correctly stated that agricultural price has worked remarkably well to streamline the price stability activities.

However, its effect are shortly mentioned below:

1. Incentive to Increase Production:

Agricultural price policy has been providing necessary incentive to the farmers for raising their agricultural output through modernisation of the sector. The minimum support price is determined effectively by the government which will safeguard the interest of the farmers.

2. Increase in the level of income of Farmers:

The agricultural price policy has provided necessary benefit to the farmers by providing necessary encouragement and incentives to raise their output and also by supporting its prices. All these have resulted in an increase in the level of farmers as well as its living standards.

3. Price Stability:

The agricultural price policy has stabilized the price of agricultural products to a greater extent. It has successfully checked the undue fluctuation of price of agricultural products. This has created a favourable impact on both the consumers and producers of the country.

4. Change in Cropping Pattern:

As a result of agricultural price policy, considerable change in cropping pattern of Indian agriculture is needed. The production of wheat and rice has increased considerably through the adoption of modern techniques by getting necessary support from the Government. But the production of pulses and oilseeds could not achieve any considerable change in the absence of such price support.

5. Benefit to Consumers:

The policy has also resulted in considerable benefit to the consumers by supplying the essential agricultural commodities at reasonable price regularly.

6. Benefit to Industrials:

The agricultural price policy has also benefited the agro industries, like sugar, cotton textile, vegetable oil etc. By stabilizing the prices of agricultural commodities, the policy has made provision for adequate quantity of raw material for the agro industries of the country at reasonable price.

Shortcomings of Agricultural Price Policy:

The major shortcomings of the agricultural price are as under:

1. Inadequate Coverage:

Inadequate coverage of procurement facility has rendered the price ineffective. The facility of official procurement reaches only a handful of farmers—of the total food gains production, procurement covers hardly 15 per cent.

2. Remunerative Price:

The remunerative price and/or subsidized inputs have failed to keep pace with the rate of increase in costs. It has had two consequences. The farmer is discouraged from producing the maximum level of output; he tries to balance his output against the level of costs, and settles for a lower level of output.

3. Ineffective Public Distribution System:

The public distribution has not been very effective. A large section of the poor people are outside the purview of the system. Even those who are covered under the system do not necessarily get the benefit of issue prices. The system has absolutely failed to serve the objective. Besides, the burned on the national exchequer is increasing enormously.

4. Difference in Prices:

There is an important issue of wide difference between prices received by the producers and prices paid by the consumers. In this context, issues relating to the network of regulations and costs associated with it, incidence of octroi, increase in transportation costs, over fragmentation of the distribution network etc. require careful study.

5. Unaccompanied by Effective Policy:

The efficacy of the price policy depends on a number of other factors inherent in the system of agricultural operations like land holding patterns, income distribution, general disparities and cropping pattern. But, it is pity to say that the price policy has not been accompanied by any effective policy for a total development of agriculture. A continuous increase in procurement prices may have even an adverse impact on agricultural productivity. Price increases which over-compensate cost increases can discourage measures to raise agricultural productivity since such prices automatically lead to higher profits for the farmers.

Suggestions for Reorientation of Agricultural Price Policy:

The adequacy of the present agricultural price policy calls for reorientation in relation to the priority objectives which are likely to shape the development strategy. Considering the present critical situation in the national economy, concern with and about broad-based and sustained growth is bound to be a dominant objective. Such crucial issues relating to the strategy needed to achieve such growth are yet to be settled and focused. Given the recent thinking in India and outside on the relative roles of government, markets, private enterprise and non-government organizations, a careful look would have to be given to the issues regarding spheres appropriate for direct government intervention.

While it is important to explore opportunities to transfer certain takes from the government to others, it would be equally important to demarcate areas, where the government must act. It would be wishful to assume that wherever the government performs badly, others would readily take-over and do better. This means that top priority should be given to national issues rather than ideological issues of different political parties of the country. There is ample reflection of these broader objective in the recent and continuing discussion on the yet to be finalized Agricultural Policy Resolution.

Some obvious indications are:

a) Systematic attempts to orient agricultural planning towards effective use of resource endowments
b) A much-expanded employment-cum-investment programme for conservation and upgradation of land and water resources;
c) Greater priority for dry land agriculture,
d) A substantial set-up in the proportion of total planned resources earmarked for agriculture/rural sectors; and
e) Time-bond targets for provision of rural infrastructures, etc.
f) Comparative advantages of grow climatic areas of the country,
g) Policy regarding growth of inputs and extension services and marketing etc.

Sincere and determined efforts for development of agriculture/rural sectors would have three main implications for the agricultural price policy.

1. Agricultural growth in the areas, crops and farms which have remained stagnant so far would have the effect of expanding the boundaries of that part of Indian agriculture which is responsive to agricultural price changes.

2. Improvements in what CACP considers as important 'non-price' factors—technology, inputs, marketing etc. —would add to the effectiveness of price policy as an instrument to promote growth along with efficiency and cost effectiveness.

3. The most important, if income and welfare support for the poor and the problems of non-viable small and marginal farmers get priority attention in the overall development strategy, the price policy would be able to focus itself more pointedly on its primary economic functions.

In view of the above considerations, following suggestions can be made in regard to reorientation of the agricultural price policy:

1. Minimum Support Prices:

Two economic criteria should govern the operations based on minimum support price. First, it should give protection only to the efficient producer so that minimum support price promotes growth and efficiency and merely subsidizes all sections of farmers. Specifically, it is urgent to realize that non-viable farmers cannot be helped simply by fixing a high enough minimum support price; the solution of their problems lies in other areas than in policy. Secondly, the protection should be given only to prevent losses being made by the efficient producer and not to ensure him profits.

2. Maximum Price:

The criteria for fixing a maximum for the prices of a commodity are not equally easy or strength forward to stipulate.

The primary responsibility of the government in relation to price level is:

a) To keep in check the inflationary forces bringing about increases—sustained and cumulative—in the overall price level, and
b) Elimination of collusive and manipulative practices leading to artificial scarcity and high prices for particular commodities.

If these two sources of price rise are effectively neutralized, it is difficult to think of any need to match every minimum support price with corresponding ceiling price. When the stability of the general price level is maintained; the efficacy of the price mechanism would depend on the extent to which the relative prices are left free to vary in response to changes in the underlying supply and demand conditions.

3. Balanced and Integrated Price Structure:

A balanced and integrated price structure criteria should be evolved. This type of price structure would help not so much in price fixation as in monitoring the changes in factors which affect prices. The extent to which an agricultural price policy would help development strategy and planning for agriculture would depend on its capacity to extrapolate, forecast and work out the implications of alternative actions. In a market-based economy, such analytical exercises would need models of interconnected markets based on the concept of equilibrium and capable of showing the manner in which the markets adjust to policy interventions, disturbances etc.

Summary of Agricultural Price Policy in India:

The summary of agricultural price policy followed by the Government of India since independence is stated below:

(i) Setting Institutions:

The Government of India has set up some institutions for the implementation of agricultural price policy in the country accordingly; the Agricultural Price Commission was set up in 1965 which announced the minimum support prices and procurement prices for the agricultural products. In 1985, the name of this institution was changed into Agricultural cost and Price Commission. Moreover, the Food grains policy. Committee was, appointed by the Government in 1966 which also recommended various measures of price support. The Food Corporation of India was also set up in 1965 for making necessary procurement, storage and distribution of food grains.

In 1989-90, total capital employed in FCI was to the Extent of Rs. 5138 crore with its total storage capacity at 18 million tones. The corporation organises the price of food grains at government determined price and sale these food stocks through the network distribution system. In the year 2009-10 and 16.28 million tonnes of wheat and 4.94 million tonnes rice were distributed to FCI.

(ii) Minimum Support Price:

The government fixes the minimum support prices of agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. regularly to safeguard the interest of farmers. The FCI also make their purchase of food grains at the procurement prices so as to maintain a rational price of food grains in the interest of farmers.

(iii) Protecting the Consumers:

To safeguard the interest of the consumers, the agricultural price policy has made provision for buffer stock of food grains for its distribution among the consumers through public distribution system.

(iv) Fixation of Maximum Price:

In order to have a control over the prices of essential commodities the government usually determines the maximum price of agricultural products so as to protect the general people from exorbitant rise in prices.

Food Problems in India

1. Introduction to Food Problems in India:

India has been facing food problems since long period. During Second World War India experienced a severe food crisis leading to a phenomenal increase in the prices of foodgrains. Again in 1943, Bengal faced a serious Agriculture and its Development in India famine where nearly 3.5 million people died out of starvation. In order to meet the situations, the rationing system was introduced and about 45 million people were covered by this rationing system. But due to corrupt and inefficient administrative structure, the entire system failed leading to a widespread hoarding and speculation of foodgrains causing huge suffering of millions of people of the country.

The partition of India in 1947 again aggravated the food crisis as after partition the country received about 82 per cent of the population but had to manage with nearly 45 per cent of the total cultivated area under cereals and with 69 per cent of the irrigated area. The country had to forego the surplus area of West Punjab and Sind.

Thus, while the separation of Burma aggravated the situation and forced the country to import rice but the partition of the country again forced the country to import wheat from foreign countries.

2. Food Problem and Food Policy in India since Independence:

India had to face a serious food crisis at the time of independence.

To meet the deficiency in the supply of foodgrains in the short run, the Government made the following provisions:

1. Extension of the rationing system to cover both urban and rural areas;
2. Import of foodgrains to make easy the situation and the amount of import reached the level of 2.7 million tonnes in 1947; and
3. Introduction of subsidy for the distribution of imported food grains as it was expensive as compared to indigenously produced foodgrains. But the public distribution system which was mostly maintained in the urban areas primarily had been suffering from huge degree of inefficiency and corruption. .

To meet the situation, the First Five Year Plan accorded highest priority to agriculture. During the First Plan period, the country experienced a series of good harvests leading to an improvement in the food supply situation, curtailment of imports and a consequent fall in the prices of food grains by 23 per cent. Considering the situation the planners became very much optimistic and an impression was created that the food problem was finally solved. But the situation was short-lived because whatever improvement in food situation was achieved that was mainly due to better climatic conditions and timely arrival of monsoons.

PL-480 Agreement, 1956:

Soon after, the Second Plan again experienced a serious food crisis especially in 1958-59, in various parts of the country due to drought, floods and cyclone. To meet the crisis the Government of India entered into an agreement in 1956 with U.S.A. to import 3.1 million tonnes of wheat and 0.19 million tonnes of rice for the next three years. This agreement was known as Public Law-480 (PL- 480) Agreement, 1956 which the government utilised to reduce and stabilise the prices of foodgrains in the country.

That marked the beginning of the present public distribution system (PDS) which was introduced to distribute cheap imported foodgrains through network of “fair price shops” at a price which was far below the prevailing market price. Again the Third Plan set a target to raise the production of foodgrains by 100 million tonnes but the plan failed to achieve the target. Under such a situation the government had no other alternative but to import foodgrains heavily. Thus, the volume of import of foodgrains which was a negligible 6 lakh tonnes in 1955-56 went up to 1.4 million tonnes in 1956-57 (the first year of PL-480 imports), 3.6 million tonnes in 1956-57, 6.3 million tonnes in 1963-64, 7.4 million tonnes in 1964-65 and then to 10.3 million tonnes in 1965-66.

Foodgrains Enquiry Committee, 1957:

This huge import of foodgrains was endorsed by the foodgrains Enquiry Committee appointed by the government in 1957. This committee categorically observed that, “Food problem was likely to remain with us for a long time to come, assurance of continued imports of certain quantities- of foodgrains will constitute the very basis of a successful food policy for some years to come.” Thus, under such a situation a stable and long term food policy based on heavy imports of foodgrains emerged gradually. Accordingly, India signed an agreement with U.S.A. for importing 16 million tonnes of wheat and 1 million tonnes office for the next 4 years.

During this 10 years period (1956-66), the food policy of the Government of India was mostly based on imports (under PL-480) from U.S.A. and the country imported nearly 60 million tonnes of foodgrains or an annual average of 6 million tonnes. About 75 to 80 per cent of foodgrains distributed through public distribution system was brought through imports which was really a humiliating dependence. Instead of all these steps, the prices of foodgrains started to rise continuously and thus the Government realised that its food policy based on imports failed to save the situation.

Integrated Food Policy, 1966:

In order to save the situation the Government set up another food-grain Policy Committee, 1966 to review the situation. This committee recommended to prepare and implement a National Food Budget involving a national plan of supply and distribution of foodgrains through (a) procurement of foodgrains (b) control of inter-state movement (c) a public distribution system and (d) building a buffer stock for difficult years. This Policy was known as Integrated Food Policy 1966 which recommended partial procurement, partial public distribution and simultaneously permitted private trade of foodgrains with free market prices.

Impact of New Agricultural Strategy:

In the meantime, the Government adopted new agricultural strategy during the Fourth Plan and set a production target of 129 million tonnes of foodgrains at the last year (1973-74) of the Plan. But at the end of Plan,' the production of foodgrains could be started to increase. After 1968 the government gradually reduced the volume of imports of foodgrains from nearly 8.7 million tonnes in 1967 to 0.5 million tonnes in 1972. But the Government raised its procurement of foodgrains since 1972 and put the public distribution system on a permanent basis. Inspite of that when prices of foodgrains rose considerably; the Government took a major decision to take over the wholesale trade in wheat from April 1, 1973.

But there was considerable opposition from the wholesale traders and rich farmers leading to a huge chaos and confusion in the wheat growing states. Due to a mounting pressure from within and outside the party, the Government ultimately forced to scrap the takeover of wholesale trade in wheat.The new agricultural strategy, popularly known as green revolution was also continued during the Fifth and Sixth Plan. At the end of Fifth Plan total production of food grains rose to about 132 million tonnes and then the same figure rose to 145.5 million tonnes at the end of Sixth Plan (1984-85).

After two years acute drought, the production of foodgrain in 1988-89 reached a record level of 169.9 million tonnes and then it further rose gradually to 146.4 million tonnes in 1990-91. But due to bad weather, the total production of foodgrains again declined to 167.1 million tonnes in 1991-92 and in 1996-97 it is likely to reach the level of 192.0 million tonnes. In spite of this positive trend in the production of foodgrains of the country, the Government had to continue its dependence on import of foodgrains for building buffer stock in different years excepting those favourable years viz., 1972, 1978, 1979, 1980, 1985, 1986, 1987, 1990, 1991.

India imported 4.1 million tonnes of cereals in 1982-83, 2.4 million tonnes in 1983-84 and also in 1987-88. In 1993, the Government has taken a decision to import 1 million tonnes of wheat for direct sale in the market and not for replenishing its buffer stocks.

Another aspect of the food problem is that prices of foodgrains have been rising continuously causing serious difficulties to the rural poor. The index of foodgrains price (base 1970-71 = 100) rose from 103 in 1971-72 to 1985 in 1979-80 and then to 390 in 1988-89. Under such a situation income disparities have widened and the proportion of population lying below the poverty line has also increased considerably. Demand for foodgrains of those people lying below the poverty line gradually declined because they do not have sufficient purchasing power.

3. **Different Aspects of Food Problem:**

Food problem in India bas the following three different aspects:

(i) Quantitative Aspect:

Supply of foodgrains in India is totally inadequate as the per capita calorie intake in India is very low in comparison to other developing countries. The report of the Food Advisory Committee (1958) states that in India a normal working adult person requires 2300 calories and 62 grams of protein daily. But unfortunately only 35 per cent of the Indian population is provided with this minimum consumption standard.

(ii) Qualitative Aspects:

There is a deficiency in the nutrient content of the diet of average Indian and this deficiency is mostly marked in respect of sugar, fish and milk.

(iii) High Prices of Foodgrains:

In India, the prices of foodgrains have been increasing rapidly and prices were double in 1970-71 as compared to that of 1960-61. The index of food grains prices (1970-71 = 100) has increased from 108 in 1971-72 to 390 in 1988-89. Again the new index of prices of foodgrains (1981-82 = 100) again increased from 118 to 179 in 1990-91.

This continuous rise in the prices of foodgrains has eroded the purchasing capacity of the Indian people and thus aggravated the food problem severely.

4. **Factors Responsible for Food Problem in India:**

Food problem in India was very much acute during 1950s and 1960s. With the adoption of new agricultural strategy, the intensity of food problem in India has declined. But as Indian agriculture is continuing its dependence upon weather conditions thus the production of foodgrains is fluctuating abruptly with the variation of weather conditions, as experienced recently in 1991-92. Thus, even in recent years, the country had to import foodgrains from foreign countries although at a lesser quantity. Thus, India has not yet reached the level of self-sufficiency in foodgrains.

The following are some of the important factors which are responsible for this persisting food problem in the country:

(i) High Rate of Population Growth:

The population of India is increasing at a very high rate. The annual average growth rate of population in India has declined slightly from -2.5 per cent during the decade 1961-71 and 1971-81 to 2.1 percent in 1981-91 and then to 1.9 per cent in 1991-2001.

The size of population has become more than double during the post-independence period which has raised the aggregate demand for foodgrains significantly. Thus, this ever increasing size of population is responsible for the persisting food problem in the country.

(ii) High Marginal Propensity to Consume:

Due to acute poverty the marginal propensity to consume of the people of India is very high. This is mainly due to high income elasticity of demand for food articles. With the increase in money income, the demand for food articles of average Indian is increasing rapidly leading to a huge pressure in the food market.

(iii) Inadequate Increase in the Production of Foodgrains:

In the pre-green revolution period, the production of foodgrains in India was totally inadequate. It is only due to adoption of new agricultural strategy the production of foodgrains has reached the level of 233.9 million tonnes in 2008-09. But considering the high rate of growth of population to (2.5 per cent per annum) this rate of increase in foodgrains production is totally inadequate. Thus, the per capita net availability of foodgrains has failed to increase substantially as it has increased marginally from 494.4 grams per day in 1965 to 509.9 grams per day in 1991.

(iv) Hoarding of Foodgrains:

There is a continuous tendency on the part of traders in India to hoard foodgrains and to accentuate the shortage of foodgrains in order to push up the prices for reaping extra-ordinary profit. Thus, this speculation and hoarding has created artificial crisis of foodgrains in the country.

(v) Increase in Farm Consumption:

In India the farm consumption of foodgrains is increasing with the increase in agricultural output. Thus, due to this increasing home consumption the marketable surplus of foodgrains could not increase substantially.

(vi) Corrupt Administrative Practices:

To improve the food situation in the country, the Government has imposed various measures like price controls, rationing, zoning, surprise checks etc. But as the administrative machinery in India is totally corrupt, these measures failed to provide any benefit to the general masses of the country.

5. **Policy Measures Adopted by the Government to Solve the Food Problem:**

During the planning period, the Government of India adopted various measures to tackle the food situation of the country at different times. Neither the free market mechanism nor the full control was adopted by the Government rather a compromise solution consisting of partial control, food procurement, public distribution system, import of foodgrains etc. has been followed to tackle the food problem of the country.

The policy measures adopted by tile Government during the planning period can be broadly classified into following four headings:

(i) Measures to increase output,

(ii) Measures to improve the distribution system,

(iii) Import of foodgrains, and

(iv) Price incentive to agricultural producers.

(i) Measures to Increase Agricultural Output:

In order to tackle the food crisis the Government had taken following measures to increase the agricultural output:

(a) Technological measure:

In order to face the serious food crisis faced by the country; the Government adopted' technological measures to boost the agricultural production of the country. Since 1966, the Government adopted New Agricultural strategy through the application of HYV seeds, fertilizers, pesticides etc. and adopted farm mechanisation technique through the use of tractors, oil engines, pumpsets, tubewells, threshers, harvester combines etc. All these technological measures have helped the farmers to raise the agricultural output considerably. But this technological change was very much restricted to some particular states like Punjab, Haryana and Western Uttar Pradesh.

(b) Land reforms:

In order to raise agricultural productivity through the removal of intermediary tenure, the Government introduced various land reform measures and also adopted legislation to bring ceiling on land holding, regulation of rent, conferment of ownership to tenants etc.

But due to half hearted approach of state governments the land reforms in India could not yield much result in raising the agricultural production and productivity in the country.

(ii) Measures to Improve the Distribution System:

In order to regulate and control the distribution of foodgrains in the country the Government adopted various measures as follows:

(a) Food Zones:

In order to stabilise the prices of foodgrains and to rationalise its distribution, the government adopted zoning system where the country was divided into food deficit zones and food surplus zones. This system restricted the private movement of food from one zone to another zone and facilitated procurement of food grains for public distribution system (PDS). But due to its various evils this system was later on abolished.

(b) Buffer stock and state trading:

In order to ensure regularity and certainty in food supply throughout the country the Government advocated for building up of buffer stock of 5 million tonnes of food grains by 1973-74. In January 1965, the Food Corporation of India (FCI) was set up to undertake purchase, handling, transport, storage and distribution of foodgrains on behalf of the government. As on 1st October, 1997 total buffer stocks of foodgrains with public agencies were 15.34 million tonnes as against 19.88 million tonnes in October 1996.

(c) Procurement and Public Distribution System:

In order to supply foodgrains 'through public distribution system FCI is allowed to undertake procurement operations in different states on a large scale. Accordingly, the volume of procurement has increased substantially from 1.4 million tonnes in 1964 to 24.8 million tonnes in 1990-91 and then it declined to 18 million tonnes in 1991-92.

Moreover, the network of Public Distribution System (PDS) was introduced to supply essential commodities at subsidised price which was an essential element of Government's safety net to the poor. The system started to operate with fair price shops and ration shops. As on 31st March, 1992 there were over 4 lakh such outlets in the country.

At present the PDS roughly distributes about 10 to 12 per cent of the annual grain production or it meet only 12 to 15 per cent of the individual foodgrains requirement. In 1991-92, 21.72 million tonnes of foodgrains were allocated to the states for the PDS against which 18.77 million tonnes were lifted for distribution. From January 1992, a scheme to revamp the PDS has been launched in about 1700 blocks falling in drought prone desert, integrated tribal development project areas and certain designated hill areas. In these areas, additional commodities like tea, soap, pulses and iodised salts are also envisaged to be distributed through PDS.

But the PDS in India suffers from some serious defects:

a) the distribution system is very much restricted to wheat and rice,
b) the system remained restricted to urban areas for a considerable period,
c) the coverage of PDS is still inadequate as it fails to cover all those persons living below the poverty line, and
d) the PDS has now turned into Frankenstein's monster for the Government.

The system has become very much expensive and a burden on the public exchequer as no efforts have been made for targeting, i.e., limiting the system to the vulnerable sections of the population. Due to its wide coverage, the PDS quota of ration per household is very poor. C.H. Hanumantha Rao, Sushanta K. Roy and K. Subbarao made an estimate that PDS in some states accounts for nearly 10 per cent of the annual plan outlay. The high cost of maintaining PDS is "threatening its long run sustainability" and the small impact of the system on the poor is reducing its effectiveness.

(d) Other Measures:

As per the recommendations of foodgrains Policy Committee made in 1957, the government took over the wholesale trade in wheat and rice in 1972-73. But as this measure was vehemently opposed by the wholesale traders and large farmers thus the government scrapped the system in March, 1974. Again the another measure to produce 50 per cent of the stocks from wholesalers also flopped miserably.

(iii) Import of Foodgrains:

In order to face severe food crisis in the economy, it is quite essential to enforce stability in the prices of foodgrains. As there was deficiency in the supply of foodgrains, thus the Government of India entered into the first PL-480 agreement with U.S.A. in 1956 to import 3.1 million tonnes in wheat and 0.19 million tonnes of rice for the next three years. Thereafter the government resorted to continuous import of foodgrains for meeting the deficiency in the food supply as the country failed to maintain a buffer stock of foodgrains. Accordingly, the volume of import of foodgrains gradually increased from a negligible 6 lakh tonnes in 1955-56 to 1.4 million tonnes in 1956-57, 3.9 million tonnes in 1959-60, 6.3 million tonnes in 1963-64, 7.4 million tonnes in 1964-65 and then finally to 10.3 million tonnes in 1965-66.

Again inspite of significant increase in the production of foodgrains in recent years, the country had to continue its dependence on import of foodgrains for building buffer stock excepting nine years (1972, 1978, 1979, 1980, 1985, 1986, 1987, 1990, 1991). Accordingly, India imported 4.1 million tonnes of food-grains in 1982-83, 2.4 million tonnes in 1983-84 and in 1987-88. In 1993, the Government took a decision to import 1 million tonnes of wheat for direct rate in the market and not for replenishing its buffer stock. A recent study conducted by World Food Programme (WFP) the U.N. in consultation with the Government of India observed that India still needs external food assistance to help large sections of its population for achieving food security and self-reliance despite the country's achievements in agricultural development and its ability to meet the market demand for foodgrains.

There is a continuing role for food assistance to India as an estimated 200 million—almost a quarter of the country's population are undernourished and live on conditions of extreme poverty. This import of foodgrains although had a favourable impact in the food situation in the short run but it had a bad impact on the production front in the long run. Economists like S. Chakraborty and Rosenstein Rodan also argued in the similar line. Decline in the prices of foodgrains due to import discourages farmers to increase agricultural production. If food aid is continued in the long run then agricultural sector cannot develop itself at a sufficiently fast rate so as to attain self sufficiency in foodgrains. Similarly, B.M. Bhatia argued that Import of foodgrains under PL-480 from USA did not allow the farmers to secure remunerative prices of foodgrains.

(iv) Price Incentives to Agricultural Producers:

Price incentives are very much important to induce the farmers for further agricultural development. American experts argued that high price incentives can be considered a key to any scheme for intensive development in agriculture. Various Indian economists like Raj Krishna, V.S. Patwardhan, A.M. Khusro also argued that Indian farmers do respond to price changes in determining their marketable surplus. The Government is also of the view that there exists a close positive relation between price incentives and agricultural production both in traditional and commercial farming. Accordingly, the Government set up an Agricultural Prices Commission (later on renamed as Commission for Agricultural Costs and Prices), which is making important decisions in connection with determining and announcing minimum support prices of agricultural produce regularly. This commission has been recommending incentive prices policy for various agricultural crops since last 28 years. Thus, care should be taken that the pricing and procurement policy of the Government should not generate any disincentive to the expansion of agricultural production.

(v) Market Intervention Scheme (MIS):

The Market Intervention Scheme is an important ad-hoc scheme which includes horticultural commodities and other agricultural commodities, which are again perishable in nature and which are not covered under the minimum price support scheme.

In order to protect the growers of these horticultural and agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to a very low level, Government implements the M.I.S. for a particular commodity on the request of a State Government concerned. Losses so suffered are shared on 50: 50 basis between Central Government and the State itself. The market intervention scheme has already been implemented in various states of our country. Thus, from the foregoing analysis we can come to conclusion that the food problem in India cannot be tackled on food front alone. Instead efforts should be undertaken to control the growth of population in order to solve the food problem of the country permanently.

Development of Indian Agriculture

Here is your essay on the development of Indian Agriculture!

The agriculture sector continues to be the backbone of Indian economy contributing approximately 27.4% to the gross domestic product (GDP), and accounts for about 18%

share, of total value of country's export. The agricultural production has kept pace with the popular growth rate of 21 % per annum. Today we are second largest producer of wheat, rice, fruits, vegetables, and fresh water aquaculture; and largest exporter of spices and cashew. The late sixties and seventies were the years of Green Revolution. During Yellow Revolution oilseeds production reached up to 24.4 million tonnes.

Per capita availability of food grains went up to 528.77 g per day in 1996-97 when compared to 395 g in early fifties. Fertilizers consumption has also increased and India has become fourth in the world after USA, USSR and China. Pulse crops are grown on the largest Indian area in the world and India is the first to evolve a cotton hybrid. Cropping pattern is changing and commercial crops and non-traditional (moong, soya bean, summer groundnut, sunflower etc.) are gradually growing more importance in line with domestic demands and export requirements. Short duration varieties have been introduced to use the residual moisture available from post-kharif and post-rabi cultivation.

The index of agricultural production base T E 1981-82 = 100, recorded following trend

A fall of 2%: 1991-92

An increase of 4. 1 %: 1992-93

An increase of 3.8%: 1993-94

An increase of 4.9%: 1994-95

A fall of 0.4%: 1995-96

Food grain production was quite low after Independence because high-yielding area of Punjab went to Pakistan after division of India. In 1950-51 the food grain production was 51 million tonnes but it was 193.01 million tonnes during 1999-2000 resulting in a buffer stock of 35 million tonnes.

Land:

Land utilization statistics revealed that net sown area increased from 1,187.5 lakh in 1950-51 to 1,424.2 ha in 1998-99. The relative share of food grains and non-food grains in gross increased from 404.8 lakh ha to 682.8 lakh ha in the same duration.

Crops:

The 3 main crop seasons are – kharif, rabi and jayad. Major crops are rice, jowar, bajra, maize, cotton, sesame, soya bean and groundnut. Major rabi crops are wheat, jowar, barley, gram, linseed, rapeseed and mustard. Rice, maize and groundnlit are grown in the summer also.

Seeds:

Three types of seeds, namely, breeder, foundation and certified, are recognized by the system. Indian seed programme include central and state ICAR, SAU system, Public sector, co-operate sector and private sector institutions.

National Seeds Corporation (NSC), State Farms Corporation of India (SFCI), 13 state seed corporation (SSC) and about 100 major private sector seed companies are the main components of Indian Seed, State Seed Certification Agencies (SSCAs) and 19 State Seed Testing Laboratories (SSTLs) looks after quality control and certification. The Seeds Act, 1966, provides

(a) Legislative framework for regulation of quality of seeds sold in the country.
(b) System of certification of seeds sold in India.
(c) Notification of varieties, a pre-requisite certification Administration of the Act and quality control of seeds to look after by control solved committee and its various sub-committees and Central Seed Certification Board.

Seed has been declared an essential commodity under the Essential Commodities Act, 1955. The Seed (Control) Order 1983, was promulgated to control and regulate the seed production and distribution. The new seed policy on seed development has been in operation since 1988. The main aim of seed policy is to makes available the best quality seed planting material "to farmer" anywhere in the world. Plants, fruits and seeds (Regulation of import into India) Order, 1989, regulates the plant quarantine clearance. Export of seeds is liberally allowed, only certain categories of seeds and planting material are in list of restricted climate for which a license is required. National Seeds Project III (NSP III) aimed at overall important in seed quality programme. Since 1969, the Central Seed Committee has verified 2,385 varieties of agricultural and horticultural crops.

Fertilizer:

The consumption of chemical fertilizer during 1999-2000 is estimated to be more than 14.93 million tonnes. Sharp increase in prices and introduction of bio fertilizers result in its lower consumption. The Government of India is implementing two Sponsored schemes: (i) balanced and use of fertilizers to popularize the use of organic sources of nutrients (compost, green manure, bio fertilizers; etc., and (ii) National Project and Technology Mission on Development and Use of Bio fertilizers – to give adequate thrust to bio fertilizer production and promotion under Essential Commodities Act, 1955. The government has issued Fertilizer

Control Order, 1985. The government has been implementing a Central Sector Scheme on strengthening of Central Fertilizer Quality Control and Training Institute since Fourth Plan.

Soil and Water Conservation:

Soil and water conservation measures were launched in First Five-Year Plan. Till the end of 1995- 96, 15.22% of the treatable area had been treated in the area catchment of River Valley Project. Under Flood Prone River Scheme 10.25% area of the total treatable area had been treated till the end of 1995- 96. Under the Seventh Five-Year Plan, a centrally-sponsored scheme of reclamation of alkali user soils was initiated in Haryana, Punjab, and Uttar Pradesh. It was extended to Gujarat, Madhya Pradesh and Rajasthan. During 8th Plan Watershed Development Project in Shifting Cultivation Areas (V/DPSCA) has been initiated in north-eastern states. It was in accordance with the guideline of the on-going centrally scheme of National Watershed Development Project Rainfed Area (NWDPRA).

Agricultural Implements and Machinery:

Farmers have been provided assistance for owning agricultural machinery including tractors. Besides this farm machines are exhausted for their characteristics and betterment. Five states agricultural universities are being aided for farm machinery testing, training and human resources development. In spite of the efforts the improvement in farm machinery use has been mainly northern states and in few areas where irrigation facilities have been developed. Sale of tractors (220.937) and power-tillers (11,000) touched the all time high work in 1996-97, and because of this at farm available power in 1.10 hp/ha in 1996 compared to 0.35 hp/ha in early 70’s. During the Ninth Plan, the main emphasis was on improving and popularizing animal/power driven implements and small farms.

Water saving devices like sprinkles and drip irrigation were given main importance. During Eighth plan, centrally-sponsored scheme, promotion of agricultural mechanization, small farmers was launched and under it 30% subsidy limited to Rs. 30,000 was given to farmers, then groups, etc. During Ninth plan two schemes, viz. (a) promoting/popularization of agricultural equipments in north- eastern states, (b) conducting studies and formulating long-term mechanization strategies for each agro-climatic zone, were started. State Agro-Industries Corporation (SAICSs) act as catalyst for providing to the farmers access to various industrial inputs for agriculture. Power threshers has been brought under Dangerous Machines (Regulation) Act because of increasing awareness on safety measure among users.

Plant Protection:

Integrated Pest Management (IPM), in eco-friendly approach, was adopted as a major thrust area of crop protection during 8th plan. IPM aims at minimal use of hazardous chemical pesticides by using alternate pest control methods and technique. The surveillance for pests and diseases on economically important crop was carried out and about 1,603 million bio-agents were released. Bacillus neem-based bio-pesticides are being granted regular registration status under the Insecticides Act, 1968. BHC, Aldirin, cheorclane, Heptachlor were banned with effect from April 1997 and 20 September, 1996, respectively.

The plant guarantee activities aim at presenting introduction of exotic pests and diseases into the country by adopting domestic plant qurantine regulation. It also works for controlling / containing of those exotic diseases/pests already introduced in the country. Destructive Insecticides and Pests Act (DIP Act) and Plants, Fruits and Seeds (Regulation of Import into India) Order, 1989 (PFS order) are implanted under this scheme. Phytosanitary certificate (PC) as per provisions of International Protection Convention (IPC), 1951 of FAO, is also supplied under these activities. The post-entry quarantine stations located at 10 international airports, seaports, and 7 land frontiers. National Plant Protection Training Institute, Hyderabad, provides training in various airports of Plant Protection.

Dry land/Rainfed Farming:

Total net sown area in the country is about 142 million ha and out of it 92.6 million ha is rainfed. Production has wide fluctuation due to variation in rainfall as whole farming depends upon rainfall which is often erratic and unpredictable. Jowar, bajra other millets pulses, oilseeds and cotton are grown. Increase and stability in their productivity is of crucial importance. In the 8th plan holistic approach was adopted under the National Watershed Development Project for Rainfed Area (N WDPRA). It aimed at development of integrated farming system on watershed basin in shifted areas. The NWDPRA was launched in 1990-91, with the objective of restoration of ecological balances in rainfed areas and sustainable bio-mass production. It also works for generating employment opportunities for rural manner in rainfed areas by developing self-help groups.

Under this project the target is of treating 28 million ha area. The Integrated Watershed Development Project (Hills) and Integrated Watershed Development Project (Plains) are underway and their main aim is slow down and reverse degradation of natural environment and improve potential of the areas. Agricultural Development Projects (ADPs) with the assistance of World Bank are being implemented to (i) enhance long-time sustainability in agriculture, and (ii) create infrastructure in rural area. DANIDAG (Government of Denmark), EEC (European Economic Community) and SDC (Swiss Development Corporation) are playing vital role in aided agricultural development programmes.

Technology Mission:

The Technology Mission on oilseeds provided the necessary breakthrough in oilseeds production. Oilseeds sector has now become to major foreign exchange earner. The oilseed production was doubled in decade (12.6 mt in 1987-88 to 24.4 mt 1996-97). Time is popularly famous as Yellow Revolution. Pulses and maize were also brought under the ambit of Technology Mission. Centrally-sponsored Oilseeds Production Programme (OPP), National Pulses Development Project (NPDP), and Accelerated Maize Development Programme (AMDP) are being continued in 9th Plan also.

Horticulture:

The production of fruits and vegetables was 38.3 and 67.24 million tonnes respectively. India attained second position in coconut production. Above 10% of coconut production is from Kerala, Tamil Nadu, Andhra Pradesh, and Karnataka. India is the worlds, leading producer and exporter of cashew accounting for nearly world's 50% demand.

Animal Husbandry:

The gross value of output from livestock sector, at current price, was about Rs. 827 billion in 1995- 96 about 26% of value of total output agricultural sector excluding animal draught buffaloes, 50.8 million sheep, 115.3 million goats, 12.8 million pigs, 3 million pack animals and 307 million poultry. The Operation Flood Programme, the world's, largest integrated dairy development programmes, completed its III phase in 1996. By September 1990, about 73,300 dairy cooperatives were organized including about 9.4 million farmers. The average milk procurement in July 1997 was 107.3 lakh litre milk/day and average milk marketed per day was 112 lakh litre milk per day. More than 62% milk procurement was from marginal, small and landless farmers.

The milk production was almost stagnant between 1947 and 1978 with an annual growth rate of merely 1%, but after that Operation Flood Programme a growth rate 4.5% per annum was observed. In 1996-97, the milk production was 69 million ml tonnes. In 1969-70 the milk availability per capita was only 107 ml/day which increased to 202 ml/day in 1996-97, which is still under the recommended nutritional requirement of 220 ml/day as per Indian Council of Medical Research. The Government of India launched Technology Mission on

Dairy Development (TMDD) in August 1988 to accelerate the pace of Dairy Development in country and reached to first position in the world. Father of White Revolution is Prof. (Dr.) V. Kurien.

Fisheries:

Blue Revolution by enhancing fish production from 0.75 million mt in 1951 to 5.4 million mt in 1997 put India as second largest fish producing country in the world in fresh water aquaculture. Fish production increased at an average rate of 4.4% 1 year during the five years of 8th Five-Year Plan. Fish Farmers' Development Agencies (FFDAs), an important programme, was launched by the government to improve overall production of inland fisheries in India. These agencies brought about 3.87 lakh ha water area under intensive fish culture.

There are 6 major fishing harbours viz. Cochin, Chennai, Vishakhapatnam, Roychowk and Paradip, and 41 minor fishing harbours and fish landing centres. Brackish-water Fish Fanners. Development agencies are trying to improve the country's' vast brackish-water area for shrimp culture. Guidelines have also been issued for mitigating the adverse impact if any, of farming on the coastal eco-system. The government of India started two important schemes for the welfare of traditional fishermen. These are – (i) Group Accident Insurance Scheme, and (ii) Development of Model Fisherman Villages.

Agricultural Census:

As a part of the World United Nations Agricultural Census Programme in pursuance of the recommendation of the FAO, the Department of Agriculture and Cooperation has organized census on quinquennial basis since 1970-71 (1970-71, 1980-81, 1985-86, 1991-92, 2000-01). Sixth agricultural census with reference 1995-96 is in operation. According to report of 1990-91, operational holdings in the country has increased from 972 million in 1985-86 to 1,066 million in 1990-91 and operated area has risen by 0.6%. The press of population on land with average size sure of holding decreased from 1. 69 ha in 1985-86 to 1.55 ha in 1990-91. Holdings operated by scheduled castes has increased by 11. 5% and by scheduled tribes by 4.2% from 1985-86 to 1990-91. In 1901 the population in rural area was 89.2% while in 1991 it reduced 74.3%. In 1991 the total number of villages was 580,781 out which 1, 12,803 are in Uttar Pradesh only.

NABARD:

National Bank for Agriculture and Rural Development (NABARD) was launched on 12 July, 1982. It was established for promotion of agriculture, rural-side industries, village industries, handicrafts and other activities in rural areas to promote rural development.

Social Security Group Scheme:

Landless Agriculture Labourers Group Insurance (LALGI) Scheme is in operation since 1987. It takes care of heads of families in the age group of 18-60 years and who are not land holders. Under IRDP a Group Life Insurance Scheme is being separated for which entire premium is paid by the central government.

Farm and Home Programmes:

The average duration of farm and home broadcast 60-100 min. Farm schools as method of communicating distant education on fanning have been adopted by All India Radio stations located in different regions. Akashvani Annual Award is given away to best Farm and Home Programmes of the year.

Agricultural Extension:

The Directorate of Extension (DoE) undertake agricultural extension programme of the Government of India. The National Institute of Agricultural Extension Management (MANAGE) at Hyderabad, looks after the human resource development activities of Directorate of Extension (DoE). DANIDA is helping agricultural training.

Agricultural Research and Education:

The Indian Council of Agricultural Research is directly involved in undertaking fundamental as well as applied research in traditional and frontier areas to offer solution to problems relating to agriculture. The research is carried out through a chain of 45 institutes and 4 national bureaux, 30 national research centres, 10 project directorates, 80 All India Coordinated Research Projects, 4 National Institutes and Deemed-to-be university status, 31 State Agricultural Universities and 200 zonal research stations.

The whole country has been divided into 120 district agro-climatic zones. Large network of front-line ICAR-SAU extension system consists of 261 Krishi Vigyan Kendras, 8 Trainers., Training centres (TTC) and 42 Institutions Village-Linkage Programme (IVLP). The 1VLP was started for technology assessment and refinement. The ICAR has established Agricultural Information System (ARIS). A WAN connecting SAUs, ICAR institutes/headquarters has been established. Connectivity is provided through dial-up, leased line, RF links and VSAT (100). It allows E-mail, Internet browsing- file transfer etc.

National Agricultural Technology Project (NATP):

The NATP was jointly prepared by the ICAR and Department of Agricultural Cooperation (DOAC), and for this the World Bank assured assistance of Rs 200 million. Its main aim is technology generation and its transfer. Its three major components are – Agro-ecosystem Research, innovations in technology dissemination, organization and management system.

Future Plan:

The perspective plans Vision 2020 formulated up to 2020 AD for sustainable growth of Indian agriculture. The required per cent growth in production of various commodities over the 1994-96 average to meet the demand of by 2020 and is very high.

Exercise Questions

1. Discuss the role of land reforms in agricultural development. Identify the factors that were responsible for the success of land reforms in India.
2. Explain the Agricultural Price Policy in India.
3. What do mean by Food Problems in India
4. Explain the Policy Measures Adopted by the Government to Solve the Food Problem?
5. Explain the Development of Indian Agriculture?

UNIT III

The Industrial Sector

Industrial policy

The pace, pattern and structure of industrialization in a country is highly influenced by its industrial policy .The industrial policy of a country consists of (i) the philosophy of a given society to bring about industrial expansion and (ii) the principles, procedures, rules and regulations which can give concrete shape to the philosophy. At independence, India inherited a state of economy with a very weak industrial base . So there was a need for a strong and effective industrial policy. The first industrial policy resolution was issued by the Government of India on April 6, 1948. This was followed by industrial policy resolution of 1956, 1977, 1980 and 1991 . The main industrial policies are briefly discussed below.

I . Industrial policy Resolution - 1948

Industrial policy resolution of 1948 recognized the principle of mixed economy. This policy divided the various industries into four broad categories.

i. State Monopolies: The first category included three industries, viz: arms and ammunition, atomic energy and rail transport. This category would belong to the exclusive monopoly of the central Government.

ii. Basic industries: The second category included six industries, viz., coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus and mineral oils. New undertakings in this category would be taken only by the Government but the existing private under takings was allowed to continue for 10 years.

iii. Regulated industries: The third category included 18 industries of national importance such as automobiles, heavy chemicals, heavy machinery, machine tools; etc .The Government of India would regulate these industries because of the importance of these industries.

iv. Private industries: The last category included all the other industries except the above. These industries were open to private sector. This industrial policy resolution also stressed importance of cottage and small – scale industries.

II. Industrial Policy Resolution-1956

The formulation of the second five year plan and the acceptance of a "Socialistic pattern of society " as the objective of social economic policy necessitated a new Industrial Policy Resolution on April,1956. The objectives of the new industrial policy were

i. To accelerate the rate of economic growth and to speed up industrialization,

ii. To develop heavy industries and machine making industries,
iii. To expand the public sector,
iv. To reduce disparities in income and wealth,
v. To prevent monopolies and the concentration of economic power, and
vi. To build up a large and growing co-operative sector. The 1956 Resolution divided the industries into three schedules.

i. Schedule A: This schedule includes 17 industries, the future development of which was to be the exclusive responsibility of the state. Of the 17 industries 4 industries –arms and ammunition, atomic energy, railway and air transport were to be government monopolies. In the remaining 13 industries, new units were to be established by the state but the existing private units were allowed to subsist and expand.

ii. Schedule B: Schedule B contained 12 industries. Such industries would be progressively state owned. The state was to establish new under takings but the private enterprise can also supplement the efforts of the state in these fields .Some of the important industries in this schedule are machine tools , the chemical industry , fertilizer etc.

iii. Schedule C: Schedule C includes all the remaining industries, mostly in the consumer goods sector. The future development these industries had been left to the initiative and enterprise of the private sector. The 1956 Resolution recognized the importance of small-scale and cottage industries and the interdependence between public and private sector .It also called for the reduction in regional imbalances and inequalities .This policy has been described as the “economic constitution of India”.

III. Industrial Policy of 1977

In December, 1977, the Janatha Government announced its New Industrial Policy in the parliament. Following are the main elements of the new policy.

(1) Development of small –scale sector : The main thrust of new policy was the emphasis on the development of small –scale industries .The Janatha Government classified small –scale industries in to:- (i) Cottage and house hold sector, (ii) Tiny industry sector, (iii) small scale industries

(2) Areas of large –scale Industry sector:-

The 1977 Industrial Policy prescribed the following areas for large scale industries sector:- (a)Basic industries (b)Capital goods industries (c) High technology industries , and (d) Other industries outside the list reserved items for the small – scale sector

(3) Approach to Large Industrial Houses:

The new policy restricts the scope of large business houses so that no unit of the same business group acquired a dominant and monopolistic position in the market.

(4) Expanding Role of the Public Sector:

The new policy expanded the role of the public sector .It was stated that the public sector industries would produce not only basic and strategic goods but also essential consumer goods. This sector would be encouraged to develop ancillary industries.

(5) Promotion of Technological Self reliance:

Govt. recognized the necessity of allowing the inflow of foreign technology in high priority industries where domestic technology has not yet adequately developed.

(6) Approach towards Foreign collaboration:

It was maintained that "In areas where foreign technological know –how is not needed, existing collaboration will not be renewed

(7) Measures in case of Sick Industrial units;

The new policy aimed at adopting a selective approach in the case of sick industrial units. While the govt. cannot ignore the necessity of protecting existing employment, the cost of maintaining such employment has also to be taken into account.

(8) Labour Management Relations

The new policy put emphasis on reducing the occurrence of labour unrest .The Govt. encouraged the worker's participation in management of industrial units from shop floor level to this board level

IV. Industrial policy of 1980

The congress Government announced its industrial policy on 23rd July 1980 .This policy was based on the Industrial Policy Resolution of 1956 .The IP of 1980 believed that industrialization was essential for the rapid economic development of the country .It believed in Government's commitment to rapid industrialization in the country with a view to benefit the common man

The Industrial policy statement of 1980 had the following socio economic objectives.

i. Optimum utilization of installed capacity,
ii. Maximization of industrial production and achieve higher productivity.
iii. Generation of employment opportunities;
iv. Correction of regional imbalance by setting up industrial units in backward areas,

v. High priority and preferential treatment to agro-based industries
vi. Faster promotion of export – oriented and import substitution industries
vii. Promoting economic federalisam by properly spreading investment in small scale industries,
viii. Reviving the economy by removing infra structural gaps

Policy Measures:-

(1) Revitalization of the public sector industries:

The Govt. proposed to revitalize the public sector industrial units by strengthening their management, developing management cadres, making unit by unit study, converting loss making units into viable units, etc.

(2) Small – scale and village industries

Taking into consideration the rise in prices, investment limits were raised from Rs 10 lakh to Rs 20 lakh in the case of small – scale units; from Rs 15 lakh to Rs 25 lakh in the case of ancillaries and from Rs 1 lakh to Rs 2 lakh in the case of tiny units:

(3) Economic Federalism

The Industrial policy statement of 1980 proposed to promote economic federalism by setting up nucleus plants in each district identified as industrially backward ; with a view to generate ancillary and small – scale industries around the nucleus industry.

(4) Automatic Expansion:

The facility of automatic expansion was extended to 15 other basic industries.

(5) Industrial sickness

The IP statement of 1980 proposed to devise an early warning system to identify incipient sickness. It was proposed to give income tax and other concessions in the case of voluntary merger of sick units with a healthy unit. Govt. was to takeover sick units only when public welfare demanded such a takeover.

(6) Export – oriented industries

The IPR of 1980 proposed to offer special facilities for export – oriented industrial units.

(7) Advanced Technology

This policy favour advanced technology. The idea behind permitting advanced technology was both to increase international competiveness and also to bring about improvement in quality of goods and reduction in their costs and prices

(8) Modernization

The IPR of 1980 proposed to evolve "Modernization Package" that would suit the requirements of each industry.

(9) Ecological Balance

The Industrial policy of 1980 proposed to continue the policy of not allowing setting up of new industrial projects in metropolitan areas which are already congested. It encourages dispersal of industries to relatively less industrially developed areas.

(V) New Industrial Policy of 1991

The government announced a new industrial policy on July -24 , 1991 in line with the liberalization measures taken during the eightees . It marks a sharp departure from earlier policy resolutions. The basic philosophy of the new policy has been summed up as "continuity with change "

Objectives: the prime objectives of the new industrial policy are:

i. To unshackle the economy from the cobwebs of unnecessary bureaucratic controls,
ii. To consolidate the strength built up during the last four decades of economic planning and to build on the gains already made,
iii. To correct the distortion or weakness that may have crept in the industrial structure.
iv. To maintain a sustained growth in the productivity and gainful employment, and
v. To attain international competitiveness.

To fulfil these objectives, the government introduced a series of initiatives in the new industrial policy in the following areas.

A. Industrial Licensing Policy

i. Industrial licensing has been abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons hazardous chemicals and overriding environmental reason, and items of elitist consumption. Now licensing is compulsory for only 5 Industries, (ie. alcohol, cigarettes, hazardous chemical, electronic aero scope, defiance equipment and industrial explosive).
ii. Only three industries groups where security and strategic concerns predominate will be reserved exclusively for the public sector. (ie atomic energy , substance notified by the Dept. of Atomic Energy , railway transport).
iii. In projects where imported capital goods are required , automatic clearance will be given in the following cases :

a) Where foreign exchange availability is ensured through foreign equality.
b) If the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment , up to a maximum value of Rs .2 crore

B. Foreign Investment

a. Automatic approval will be given for direct foreign investment up to 51 per cent equity in high priority industries. The limit was subsequently raised from 51 percent to 74 percent and then to 100 percent for many of these industries .[FDI is only prohibited in retail trading , atomic energy lottery business, and gambling and betting]

b. To provide access to international markets, majority foreign equity holding up to 51 percent equity will be allowed for trading companies primarily engaged in export activities .

c. The Foreign Investment Promotion Board has been constituted to negotiate with a number of large international firms and approve direct foreign investment in the selected areas

C. Foreign Technology Agreement

a. Automatic permission will be given for foreign technology agreements in high priority industries up to a lump sum payment of $ 2 million , 5 per cent royalty for domestic sales and 8 percent sales over a 10 year period from the date of agreement or 7 days from commencement of production .

b. In respect of industries other than those included above , automatic permission will be given subject to the same guidelines as if no foreign exchange is required for any payments.

D. Public Sector Policy

(i) The 1991 industrial policy reduced the number of industries reserved for the public sector to 8. Now only three industries (atomic energy , minerals and rail transport) are reserved for public sector.

(ii) Portfolio of public sector investments will be reviewed with a view to limit these to strategic, high-tech and essential infra structure .Where as some reservation for the public sector is being retained , there would be no bar on opening up areas reserved exclusively for the public sector to the private sector selectively . Similarly , the public sector will also be allowed entry in areas not reserved for it

(iii) Public enterprises which are chronically sick and which are unlikely to be turned to normal health, will be referred to the Board for Industrial and Financial Reconstruction (BIFR) for advice about rehabilitation and reconstruction.

(iv) In order to raise resources and encourage wider public participation , a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions , general public and workers

(v) Board of public sector companies would be made more professional and given greater powers

E. MRTP Act

i. MRTP (Monopolies and Restrictive Trade Practices) Act has been amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings.

ii. Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices.

iii. Provisions relating to concentration of economic power , pre entry restrictions with regard to prior approval of the central government for establishing new undertakings, expanding the existing undertaking, amalgamation, merger etc. have been deleted F. Abolition of Phased Manufacturing Programmes and removal of mandatory convertibility clause and liberalization of location policy; etc . are some other provisions of this policy

Appraisal of New Industrial policy (impact)

The new industrial policy (1991) paves way for liberalization which will again result in faster industrial growth as the industrial sector is being relieved of unnecessary control and regulation. J.C. Sandesara argued that the new policy will accelerate industrial production as it reduces project time and project cost of production, attracts capital, technology and managerial expertise from abroad and improves the level of efficiency of production , enhances the allocative efficiency of the public sector and curbs anticompetitive behavior of firms in the monopolistic and oligopolistic markets.

However, some economists have criticized this new policy on various ground:

a. The new policy package makes a complete departure from the Nehruvian model.

b. Indian businessmen are facing unequal competition from MNCs. The various measures to promote foreign investment and various concessions to such investment have provided opportunities to MNCs to penetrate the Indian economy and gobble up Indian enterprises

c. India has moved from the much protection to too little protection, which may eventually result in policy induced de industrialization.

d. It causes distortions in production structure.

e. Excessive freedom given to foreign. capital may affect our economic sovereignty and will push the country towards debt trap Thus considering all these apprehensions sufficient care should be taken in near future to keep the industrial economy in right track

Large Scale Industries - Traditional

We distinguish the industries in terms of capital investment as large, small and tiny sectors. Industrial units with investment higher than specified for small scale industries are large-scale industries. Large-scale industries can further be classified as traditional and modern. Industries may be described as 'Traditional' in the sense that they have a fairly long history and were well established when the First Five Year plan was launched. They include most prominently the cotton and jute textiles, sugar, iron and steel, paper and cement industries. Let us now discuss the present status of some of these major large scale industries in India.

Cotton Textile Industry

The cotton industry is one of the oldest industries in India. It has become one of the major large scale industries in India. The first cotton mill was established in 1818 at Fort Gloster near Calcutta. The real growth of the industry started with the setting up of the Bombay Spinning and Weaving Mills in 1854 with Parsi capital. The Swadeshi movement and the First World War helped in the expansion of the industry. In the early period of this century the industry faced stiff competition from Japan. After 1930, however, the situation improved as a result of bilateral trade agreements with Japan. With the grant of protection in 1927 the industry began to make rapid progress. During the Second World War competition from Japan ceased and the industry increased its production to cater to war demands. In 1947 protection to the industry was withdrawn.

The partition of the country was a serious blow to the industry. India retained most of the factories whereas 40% of the area under cotton cultivation went to Pakistan. This adversely affected the supply of raw cotton.

Till 1920 the development of cotton textile industry was concentrated in and around Mumbai. With the establishment of cotton textile mills in north India ,Tamil Nadu, Karnataka, and Madhya Pradesh ,there took place decentralization of this industry. Even now sixty percent of the spindles and looms are concentrated in Mumbai and Ahamedabad.

The industry has three mutually exclusive and disparate sectors, namely, the mills, the handlooms and the power looms. The mills manufacturing cloth come under the organized sector while the other two are generally included in the decentralized sector.

Till 1960, a major proportion of cloth output in India was produced in the mill sector (72.5% in 1960). Since the mid 1960's the major share (95%) of cloth output comes from the decentralized sector. Of the two sub sectors -handlooms and power looms –in the decentralized sector, it is the power looms sub sector that has grown at a faster pace. For instance in 1998-99, the share of power looms in total fabric production was as large as 74.7 percent while handlooms contributed 18.8 percent.

Cotton textile industry provides employment to about 35 million workers and accounts for 14 percent of total industrial production in the country. This industry accounts for 16.33 percent of the total value of exports and 4percent to the GDP in this country. Textiles and cloths worth US Dollar 26.82 billion were exported during 2010-11. With the aim of developing the three sectors of the industry, viz, mills, power looms and hand looms in an integrated manner, the government announced a new textile policy in 1985. The main objective of this policy was to enable the industry to increase production of cloth of good quality at reasonable prices for the vast population of the country as well as for exports. A textile modernization fund of Rs. 750 crore was created in 1986 to meet the modernization requirements of the textile industry. A textile workers rehabilitation fund has been set up to provide interim relief to workers rendered unemployed as a consequence of permanent closure of the textile mills.

The Govt. of India has agreed to phase out Multi Fibre Agreement within 10 years. The MFA is now to be dismantled in four stages. Thus immense opportunities await the Indian textile exports in years to come. The Cotton Technology Mission has been launched to improve cotton yield in the country. The mission is a major initiative of the Govt. to help the industry face global competition once the MFA under the August of the WTO ends.

Problems :

1.Modernisation and rationalization : There are four aspects of the problem.

i. Modernization requires funds. Textile mills lack internal surpluses to meet their modernization needs. But banks are unwilling to provide necessary funds. The attitude of various financial institutions has been lukewarm.
ii. Lack of modernization raises the cost of production. The cost of production is further increased by hike in wages in the organized sector and the cost of raw materials. Higher

costs lead to higher prices. This adversely affects their competitive position and hence their share in the export market.

iii. Non- availability of modern sophisticated machinery within the country. Moreover, textile industry has not attracted enough foreign investments.

iv. The decreasing share of the organized sector and increasing share of the decentralized sector on account of a deliberate policy adopted by the Govt, the modernization of one sector alone will not do either.

2. Lack of raw-materials:

Among the raw materials, cotton is the most important. Given the fact that the productivity of crop Is very low in India, its cost of production, and hence price is relatively higher. Moreover, the quality of Indian cotton is deplorably low. The prices of other raw materials like dyes, chemicals and starch have also been increasing sharply. All these have raised the prices of yarn and cloth. Thus, rising prices of raw materials, particularly cotton, are bound to have great impact on the economics of textile production. In addition to raw cotton, non-availability of power and coal and railway wagons make things more complicated.

3. Low demand for cotton cloth :

i. Cotton cloth is pitted against synthetic cloth. Synthetic cloth has been attracting more demand both from the urban and the rural consumer. Further massive power loom sector has been flooding the market with its cheap products. All this adversely affected cotton cloth industry.

ii. Low demand for cotton cloth has also been a consequence of low availability of the purchasing power with the weaker sections of the society. Lack of demand is also due to changing pattern of consumption. There is a trend of an increase in consumption of mixed fabrics.

iii. The capacity utilization of cotton textile industry is very low.

4. Sickness :

Because of two problems i.e out dated plant and machinery and labour disputes, a number of cotton mills are facing recession and are turning sick, which often leads to widespread unemployment Govt. of India established the National Textile Corporation in 1968 with the objective of reviving the sick textile mills.

Suggestions : we may make the following suggestions. Proper attention should be paid to quality. Steps should be taken to ensure full utilization of spindles and looms. Timely financial assistance on easy terms should be provided to such of the sick mills as are capable of generating repayment capacity out of such assistance. If is essential that measures are taken to ensure a steady consumption of indigenous cotton and create buffer stock operations for cotton. A reasonable floor price of cotton should be assured to the grower, so that he is encouraged to grow more cotton. The uneconomic subsidy system has to be discontinued.

New Textile Policy :

A new textile policy was announced on Nov.2, 2000. The aims of the new policy are:

1. To increase apparel and textile exports to $ 50 billion from the present level of $ 11 billion.
2. To encourage the private sector in setting up specialized financial arrangements to fund the diverse need of the industry.
3. To encourage the private sector to set up integrated complex and units.

The principal provisions of the new policy are as follows:

i. Free flow of capital allowed in the sector.

ii. Duty structure would be reviewed.

iii. A venture capital fund should be set up to encourage entrepreneurship among technocrats.

iv. There should not be any mandatory export obligation on FDI.

v. The highly export oriented garment sector has been taken off SSI reserve list.

Iron and Steel Industry

The iron and steel industry is the basic industry of the country. Indeed, steel is the backbone of all development, industrial as well as agricultural. The development of machine building, consumer goods industries, transport and communications, irrigation and scientific agriculture is dependent on the availability of adequate quantity of cheap and good quality steel in the country.

The real beginning of modern iron and steel production started with the establishment of Tata Iron and Steel works in 1907 (TISCO). In 1919 the Indian Iron and Steel company and in 1923 Mysore State Iron Works were started. The first unit in the public sector, now known as the Visvesvaraya Iron and Steel Works Ltd. started functioning at Bhadravati in 1923.

Progress after Independence:

The iron and steel industry has been accorded the highest priority under the five year plans. During the Second plan three steel plants were set up in the public sector at Bhilai (M.P), Durgapur (West Bengal) and Rourkela (Orissa). The Third plan placed emphasis on expansion of these three plants and the setting up of new steel plant at Bokaro. The Fourth plan aimed at setting up new steel plants at Salem in Tamil Nadu, Vijaya Nagar in Karnataka and Vishakapatanam in A.P. The Bokaro steel plant was commissioned in 1978.

There are at present six integrated steel plants in the country – five in the public sector and one TISCO in the private sector. The public sector steel plants are owned by the Steel Authority of India Ltd.(SAIL) which was set up in 1974. At present there are 177 mini steel plants in the country. As a result of the investment in new plants and expansion of the old ones, the production of finished steel has increased from 55.15 million tonnes in 2006-07 to 59.33 million tonnes in 2009-10. India ranked as the fourth largest producer of crude steel in the world during January- November 2011.

Production and Consumption

The steel industry is regarded as the barometer of the overall industrial growth. The production of finished steel in India rose from 1.04 million tonnes in 1950-51 to 59.33 million tonnes in 2009-10. India has now emerged as the third largest producer of steel in the world.

The consumption of finished steel in 2008-09 was 52.4M.T. India's per capita consumption of steel was at about 38k.g. Total export of finished steel in 2008-09 was 4.44M.T.

Steel Policy

The iron and steel sector is now almost entirely open with no sectoral reservations, with no licensing, pricing, distribution and import controls.

Problems of the Industry

(1) Lack of technical and trained personal: In India, we do not have adequate technical staff and trained workers. Therefore, we have to take the services of foreign technicians on high remuneration.

(2) Shortage of Metallurgical coal: For melting iron, good quality coal is required. India does not possess sufficient good quality coal. This adversely affects the production of finished steel.

(3) Shortage of Finance: One of the important problems facing the industry is shortage of finance. This industry requires heavy capital investment which is difficult to secure.

(4) Under-utilisation of Capacity: The iron and steel industry has been working below full capacity. It was 70% in the public sector concerns whereas it was 97 percent in private concerns.

(5) Sickness of Mini Steel Plants: The main problem faced by the mini steel plants is their sickness. The problems faced by these units include short supply of inputs like scrap, inadequate power supply, constraint of working capital and poor management.

(6) Labour unrest : There were periods of strained labour relations at many plants. Production suffered as a result.

(7) Rapidly increasing demand: Demand for steel is increasing very fast under the impact of Five Year Plans. This requires that the output of the industry should be increased rapidly to cope with the ever increasing demand.

(8) Product-mix and waste-materials: There is need to reorient the product-m ix of the industry and to use the waste materials namely slag.

(9) Distortions of Planning: Excessive control and lakh of proper co-ordination also resulted in the poor performance of the iron and steel industry.

Sugar Industry

Sugar industry is one of the major industries of India. It ranks second among the agrobased industries. It provides employment in mills and in the production of sugar cane. Its contribution to the revenues of both the Central and the State Governments in the form of various taxes is quite high. It provides direct employment to about 3.25 lakh workers. The industry contributes an estimated Rs.1600 crore annually to the Central and State exchequers.

History:

Sugar industry had its origin in India in 1903. But the industry developed on modern lines only after 1920. Since 1920, the development of the industry was phenomenal when the industry was given tariff protection against foreign competition. The industry has been described as the "Child of Protection". Within five years of the grant of protection, the number of factories increased from 31 in 1931-32 to 137 in 1936-37. In fact by 1939-40 India attained self sufficiency in sugar production. After the Second World War, the prices of sugar started rising and the Govt. had to adopt the system of price control and rationing. In 1952, production reached its peak level and controls were given up.

Progress under the Plans:

Production of sugar increased by leaps and bounds during the planning period. The number of sugar mills rose from 138 in 1950-51 to 582 in 2006-07, out of which 189 are in the private sector,306 in the co-operative sector and 62 in the public sector. The production of sugar increased from 11.34 lakh tonnes in 1950-51 to 282 lakh tonnes in 2006-07. At present there are 245 sugar factories in the private sector, 62 in the public sector and remaining 317 factories in co-operative sector working in the Country, India is the second largest producer of sugar with a share of over 15 per cent of world sugar production.

Problems of the Industry:

Sugar industry has been suffering from the following problems.

(1) Shortage in the Supply of Sugar Cane:

The sugar industry suffers from an inadequate and irregular supply of sugar cane. Cane output fluctuates with general weather conditions and the diversion of the land under cane to other crops.

(2) Problem of Uneconomic Units:

Most of the sugar mills of the country were of uneconomic size, and they cannot be expected to produce sugar on a very large scale. As a result of this, production cost of these mills was quite high.

(3) Low Yield of Cane per acre:

The yield of sugar cane per hectare in India is very low. It is much less than that of Cuba. Java,and Hawai Islands. Further, quality of sugar cane produced in India is not quite satisfactory.

(4) Centralization :

Most of the sugar mills were situated in U.P. and Bihar, whereas the area in the south was more suitable for the setting up of sugar mills only.

(5) Use of by Products:

The byproducts of the industry such as baggasse, molasses, etc. are not put to economic use. The economic utilization of by-products can help in reducing cost of production.

(6) Problem of Modernization:

Most of the sugar mills of our country possess out-dated machines. The machines are to be replaced by a new one to increase the productivity and to reduce the cost of production.

(7) Burden of Excessive Taxation:

The industry has to face the burden of excessive taxation.

(8) Short duration of the Crushing season:

Another problem is short duration of the crushing season in India. The average duration of the crushing season is about 4 to 5 months in India as against 8 to 10 months in Cuba and Jawa.

(9) The Sugar economy is highly controlled:

This industry requires compulsory licensing under the existing policy. There is a statutory minimum price (SMP) for sugar cane fixed by the centre and state advised price over and above the SMP. Though there is no price control on free sale sugar, its market supplies are regulated by fixing quarterly release quotas to maintain stability.

(10) Governments' Changing policy:

The frequently changing government policy with short term objectives in view , injected an element of serious uncertainty in the development of the industry .

Jute Industry

This is another important traditional industry which helps India to earn substantial of foreign exchange. The jute manufacturing industry which came to be established in India in 1855 went on recording progress as India had almost attained a monopolistic position in respect of jute products in the world.

Till partition of the country in 1947, the India jute industry held a dominant position , not only in Indian economy, but also in the entire world economy. The Indian jute industry received a rude jolt with the partition of the country. While practically all the manufacturing jute mills happened to be in and around Calcutta, which formed part of India, more than 70 percent of raw-jute growing areas became part of East Pakistan. This created a serious shortage of raw-material for jute factories in India.

In 1951 while the total production of raw-jute in India was around 3.3 million bales, requirement of industry was around 7.2 million bales. Later, production of raw-jute increased to 4.1 million bales in 1960-61 and further to 7.8 million bales in 1990-91.

Present position:-

There are 77 jute mills in India with nearly 44,990 looms, out of which only 70 units are in operation and 60 are in West Bengal. This industry accounts for about 32 percent of the world production and about 46 percent of world export of jute goods. The total capital employed in the industry is of the order of Rs.500 crore. This industry provides employment to about 2.3lakh workers. Moreover, the cultivation of jute provides living to nearly 40lakh families. The production of jute and mesta textiles increased from 8.37 thousand tonnes in 1950-51 to 16.0lakh tonnes 2008-09. The estimated value of the output of the industry is of the order of Rs.1000 crore, out of which goods worth about Rs.700 crore are exported.

Problems of the Industry:

The Indian jute industry has been facing a number of problems of which the following are the important ones.

(a) Problem of Raw –materials:

The partition of the country in 1947 gave rise to the problem of raw-materials. Inspite of vigorous efforts to produce raw-jute by extensive and intensive cultivation even at present the supplies of raw-jute are inadequate and irregular.

(b) Problems of Modernization:

Machinery of the Indian jute industry is to a large extent old and obsolete. As a result production is uneconomic and cannot be sustained for long without modernization . Unless we modernize our plants and equipments, it will be extremely difficult for us to compete with low priced jute goods produced by new mills set up in Bangladesh and other countries .

(c) Problem of Substitution:

A more important and disturbing problem is the emergence of a new range of packing material. Paper and plastic bags and covering and specially designed cloth wrappings have proved to be extremely competitive substitutes for jute bags and wrappings. All these developments adversely affected the demand for jute products and its competitive strength in the world market.

(d) Decline Demand for Jute Goods.

Demand, especially from foreign markets, has been declining an account of the following reasons. Synthetic producers are able to undercut jute in both the primary and secondary backing markets. Cost of production of Indian jute industry is relatively high. This has also adversely affected demand.

(e) Irregular Power Supply, Low yield per hectare, fall in export etc., are some other Problems facing this industry.

Government Measures

In order to enable the Indian jute industry to over come some of these difficulties and barriers, the Govt. of India have been taking some short-term measures such as the reintroduction of cash compensatory support to almost all types of jute goods to be exported, insisting on Indian cement, fertilizer and some other industries to use only new jute bags, and providing additional funds to Indian jute mills to purchase more raw-jute from jute producers. In addition, Govt. has announced a package of financial assistance from the Industrial

Reconstruction Corporation to sick jute mills. Govt. has also set up a separate fund to explore the possibilities of increasing jute goods exports.

Suggestions:

1. The government should announce a long-term policy on jute so as to protect the interest of both jute growers and consumers.
2. There should be a monopoly procurement of raw jute by Jute Corporation of India.
3. The prices of raw-jute should be determined by an independent body like the Commission on Agricultural Costs and Prices.
4. Attempts should be made to make the industry cost competitive.
5. There is an urgent need to intensify research and development activity in the jute industry.
6. Diversify the jute products.
7. The import of machinery and spares should be liberalized.
8. To boost domestic demand for jute goods, mandatory use of jute goods is to be envisaged.

Cement Industry

Cement is one of the key industries in India. It is a capital intensive industry. The first cement manufacturing unit was started in 1904 in India. But the systematic manufacturing of cement was started in 1914 by the India Cement Company Ltd. (Gujarat). At the beginning of economic planning, there were 21 factories in India with an annual capacity of 3.28 million tonnes. The government had complete control over the production, distribution and price of cement and this had dampened the growth of the cement industry. Later a policy of partial decontrol was announced in 1982 and this policy was continued till 1989. The cement industry was delicensed in 1991. The industry responded favorably to the government initiatives and the production capacity also increased. Total production increased from a mere 2.7 million tonnes in 1950-51 to 51.7 million tonnes in 1991-92 and finally to 190 million tonnes in 2009-10. At present (2011) there are 166 large cement plants in the country with an installed capacity of 282.09 million tonnes per annum. Besides, there are about 350 mini - steel plants with an estimated installed capacity of 11.10 million tones per annum. Now, India is the second largest producer of cement in the world after China. This industry provides employment to about 2 lakh people. The production during 2010-11 rose to 223.6MT. During 2007-08, cement export was 3.65 million tones and it increased to 4.62 MT in 2010-11.

The major Indian cement companies are Associated Cement Company (ACC), Grasim Industries, Ambuja Cements, J.K. Cements and Madras cement. The Indian government has ranked different states in India in terms of current production. Rajasthan ranks first, (16.18%)

followed by Andhra Pradesh (15.5%), Madhya Pradesh (11.02%) Tamil Nadu (10.47%) and Gujarat (8.38%)

Problems

The cement industry in India has been suffering from the following problems: a) under-utilisation production capacity, b) cost escalation and rigid pricing, c) excessive burden of excise duty, d) unrealistic distribution policy, e) partial control and dual pricing, f) Low profitability and g) obsolete technology, etc.

Small-scale and Cottage Industries

Development in any system hinges on the growth of smalls first and bigs next. There is a growing recognition worldwide that micro, small and medium enterprises (MSMEs) have an important role to play in terms of resource use efficiency, capacity for generation of employment, technological innovation, promoting inter-sectoral linkages, raising exports and developing entrepreneurial skills. This is particularly true in the case of India.

Definition: There is no single, uniformly acceptable definition of a small or medium enterprise. Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provided a comprehensive definition of 'Micro', 'Small', and 'Medium' enterprises. Under the Act, enterprises have been categorized broadly as : i) Manufacturing Enterprises and ii) Service Enterprises. Both categories have been further classified into three groups as micro, small and medium enterprises based on their investment in plant or in equipment as under.

A. Manufacturing Enterprises

i. Micro enterprises – investment upto 25 lakh,

ii. Small enterprises – investment above Rs.25 lakh and upto Rs.5 crore.

iii. Medium Enterprises – investment above Rs.5 crore and upto Rs.10 crore

B. Service Enterprises

i. Micro enterprises - investmentuptoRs.10 lakh,

ii. Small enterprises – investment above Rs.10 lakh and upto Rs.2 crore.

iii. Medium Enterprises – investment above Rs.2 crore and upto Rs.5 crore

According to the Fourth All India Census Report of MSMEs, there were 2.61 crore MSMEs in 2006-07. They represent 92 per cent of India's registered companies. They account for about 40 per cent of GDP and contribute about 50 per cent of exports. This sector accounts for about 39 per cent of the manufacturing out put and 33 per cent of the total export of the country. Of the total, 72 per cent of these enterprises are engaged in service sector and only 28 per cent of MEME's constitute the manufacturing sector. These service sector units are largely in Apparel (14.03%) and Maintenance of Personal and Household goods (9.25%). The MSMEs sector accounts for employment of 5.95 crore persons, of which 0.95 crore are in registered units.

New Small Enterprise Policy

Classified small enterprises under two headings : a) Small and tiny enterprises and b) Village Industries

a) Small and Tiny Enterprises

According to this classification all units within the investment limit of Rs.5 lakh and located in bigger towns (population of 50,000 plus) will now become a part of the tiny group. All industry related services and business enterprises, irrespective of their location are now recognized as small enterprises but their investment limit corresponds to those of tiny enterprises.

b) Village Industries

A major objective for the group of village industries seems to be to promote rural industrialization. The other major objective is to promote employment, which is more welfare-oriented than efficiency oriented. A number of measures are proposed to achieve these objectives, such as supply of raw materials, sale of products, upgradation of production methods, etc.

Small scale and cottage industries

Small scale industries have emerged as a vibrant and dynamic sector of the Indian economy. This sector plays a pivotal role in the Indian economy in terms of its contribution to the country's industrial production, exports, employment and the creation of an entrepreneurial base.

Role of Small scale Industries (Rationale)

Small scale and cottage industries have an important role in India's industrial and economic development. The rationale of SSis (Small Scale Industries) can be explained in terms of the following arguments.

i. Employment Generation: The cottage and small-scale industries are believed to be labour intensive, i.e. they use more labour with given amount of capital in comparison to large-scale industrial units. It has been estimated that Rs.1 lakh of investment in fixed capital in the SSI generates employment for 4 persons. Employment in the smallscale sector grew at the rate of 5.45 per cent per annum. It has been estimated that labour intensity in micro and small enterprises sector is almost 4 times higher than the large enterprises. In 2007-08 the SSI sector employed 322.28 lakh people.

ii. Equitable Distribution of Income: Development of cottage and small-scale industries helps to reduce income inequalities and secure more equitable pattern of income distribution. This is accomplished because of two reasons. I) ownership of small-scale industries is more widespread, and ii) labour intensive nature of production.

iii. Use of Latent Resources: Development of village and small-scale industries in the rural areas would lead to utilisation of latent resources such as hoarded wealth, surplus rural man-power, local entrepreneurship and native skills.

iv. Industrial Decentralization: Development of cottage and small-scale industries prevents concentration of industries at only a few places as it disperses them all over the country. Small industry helps in fostering enterprises from amongst the members of the castes, classes and professions which have hitherto not contributed to the entrepreneurial class in India. All these will lead to a balanced regional growth.

v. Efficiency: Economists differ over the issue of efficiency in the small-scale industries vis-à-vis large scale industries. Economists like Dhar, Lydall and Sandesara inferred that modern small scale industry is less efficient relative to large scale sector industry. However, some studies reached the conclusion that small scale is more efficient in terms of labour productivity, total factor productivity and employment potentiality. For instance, a rupee worth of fixed assets produced almost seven times an output in small as compared to large industries and that the value added by a rupee worth of fixed investment in small factories was at least three times as large as that for a large factory. Similarly, it is found that organized sector requires an investment of Rs.5 lakh to generate eployment to one person whereas the SSI sector generates employment for 7 persons with the same investment.

vi. Less Industrial Disputes: Supporters of small-scale industries argue that small-scale industries are free from industrial disputes and there is consequently less loss of output. In the case of cottage industries, the question of disputes does not arise at all
since the main form of labour in these industries is family labour.

Structure of Indian Industry: Public and Private Sector Enterprises

Division of the Economy between Public Sector and Private Sector:

The present economic structure of Indian economy is known as mixed economy, where there is a coexistence of both the public sector and the private sector. All the different types of industries are divided between these two sectors. From the very beginning, most of the industries of the country were within the purview of private sector.

But after independence and especially after the introduction of economic planning followed by the introduction of Industrial Policy Resolutions, 1948 and 1956 the importance of the public sector was realized. Accordingly, some definite category of industries was gradually reserved for the public sector for their expansion and development.

In this way, the sizes and activities of the public sector gained its momentum with the growing volume of planned expenditure for the development of public sector under different Five Year Plans of the country. Thus in a mixed economy like India, some industries are owned and managed by the State through its public sector and the remaining others are owned and managed by the private sector of the country.

In India, only those industries are reserved for the public sector which are essential for speedy development of the economy and where private sector is reluctant to invest either due to low rate of return or heavy risk involved in it.

In India, the area of activities of the public sector were very much restricted to a limited range like power, irrigation, roads, railways, port, communications and some departmental undertakings at the time of independence. But after independence, the area of activities of the public sector was expanded at a rapid pace. Two industrial policy resolutions adopted in 1948 and 1956 respectively have divided the industries of the country into different categories.

Accordingly, some industries were entirely reserved for the public sector, some industrial fields were left completely for the private sector. Such division of areas between the public and private sector reveals that while the heavy, basic and strategic industries were reserved for the public sector, the entire group of consumer goods industries, producing both consumer durables and non-durables was kept open for the private sector.

The entire agricultural sector, being the largest sector of the country has been left for the private sector. Again the infra-structural fields like railway, air transport, port, power, communications, banks, insurance, financial corporation’s etc. are reserved for the public sector. The logic behind reserving the heavy and basic industries like iron and steel, heavy electrical plant, heavy engineering etc. for the public sector and the quick-yielding consumer goods industries for the private sector is quite simple.

R.K. Hazari made an attempt to analyse the logic behind such strategy of the Government, where he argued that the industrial programme of the government adopted after 1955 were finalised as per the following two hypotheses:

(a) Private investment activity in relatively simple goods would generally be promoted by shutting out imports as well as through utilisation of excess capacity at home, with a consequent boost to profits; and

(b) Public investment, being indifferent to profits, would be made in those basic and strategic- areas which had long gestation periods, poor or zero rate of profits, a large exchange requirement, complex technology and equally complex problems of co-ordination.

Here the first hypother is argued that private investment was in the form of 'induced investment' and could be promoted by adopting a policy of protection against various imported substitutes. The argument in favour of the second hypothesis was that the flow of investments in low profit yielding and heavy investment requiring industries were in the form of 'autonomous investment' and, therefore, could be undertaken by the state.

Relative Role of Public Sector and Private Sector in the Indian Economy:

Relative Role of Public and Private Sector as reflected in the Industrial Policy of India:

In a country like India, both the public sectors as well as the private sector are playing their relative role quite effectively. The Industrial Policy Resolutions of 1948 and 1956 have made special provision for the reservation of sphere for both the public as well as the private sector considering their relative role in the economy of the country. The Industrial Policy, 1948 has divided Indian industries into four broad categories, involving both the public as well as the private sector and thereby laid the foundation of mixed economy. Thereafter, Industrial Policy Resolutions, 1956, classified the Indian industries into three schedules, i.e., state owned sector, progressively state-owned sector and private sector. As per this policy, 1956, the State would facilitate and encourage the private sector industries by ensuring infra-structural facilities like power, transport and other services and provided non-discriminatory treatment to both public and private owned units.

Moreover, the philosophy and programme of action for the promotion of public sector was incorporated in the Industrial Policy Resolutions of 1948 and 1956. The Industrial Policy Resolutions of 1956 aptly observed, "The adoption of the socialistic pattern of society as the national objective, as well as the need for planned development requires that all industries of basic and strategic importance or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state in present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area.” Thus, the Industrial Policy Resolutions of 1948 and 1956 have clearly mentioned the relative role of both public and private sector in a country like India. While analyzing the role of public sector in Indian economy, Mrs. Indira Gandhi the then Prime Minister of India, rightly observed, “We advocate a public sector for those reasons to gain control of the commanding heights of the economy to promote critical development in terms of social gain or strategic value rather than primarily on consideration of profit and to provide commercial surpluses with which to finance further economic development.”

The Industrial Policy Statement, 1977, has also mentioned about the role of public sector and thereby it prescribed the expansion of the role of public sector especially in respect of strategic goods of basic nature. The public sector was also encouraged to develop ancillary industries and to transfer its expertise in technology and management to small scale and cottage industry sector. Considering the growing problem of sickness of public sector enterprises, the Industrial Policy of 1980 reaffirmed its faith on the public sector in-spite of having erosion of faith in it in recent years. Therefore, the policy introduced a time bound programme in order to revive the efficiency of public sector undertakings through its effective operational system of management.

Again the industrial Policy of 1980 also made an attempt to integrate industrial development in the private sector by promoting the concept of economic federalism with setting up of a few nucleus plants in each district, identified as industrially backward district, to generate as many ancillaries and small and cottage units as possible. The new Industrial Policy, 1991 radically liberalized the industrial policy itself and deregulates both the public and private sector industries substantially, in line with the liberalisation move introduced during the 1980s. Realising the relative role of both public and private sector industries of the economy, the new industrial policy, 1991 un-shakled both the two industrial sectors from the cobwebs of unnecessary bureaucratic controls and introduced liberalisation measures in order to integrate Indian economy with the world economy, liberated the indigenous private sector enterprises from the restrictions of MRTP Act so as to attain sustained growth in productivity and employment and also to achieve international competitiveness.

Moreover, the new policy also made provision for reducing the load of public sector enterprises most in their expansion programmes. The policy for the public sector has helped them to restructure their potentially viable units. Moreover, the priority areas for the growth of future public sector enterprises are also rescheduled to include essential infrastructure, exploration and exploitation of minerals and oil, technology development and products with strategic consideration. Thus, we have seen that various industrial policies, formulated by the Government since 1948 have given due consideration to the relative role of both public and private sector in Indian economy. Therefore, these policies have made sincere attempts for the sustained development of both the public as well as private sector simultaneously.

Relative Role of Public Sector in India:

Public sector occupied a no worthy place for achieving systematic and planned development in a developing country like India. In a country like India suffering from multi-dimensional problems, private sector is not in a position to make necessary effort for the development of its various sectors simultaneously. Thus, in order to provide the necessary support to the development strategy of the country, the public sector offers the necessary minimum push for bringing the economy to a path of self sustained growth. Thus it is now well recognized that public sector plays a positive role in the industrial development of the country by laying down a sound foundation of industrial structure in the initial stage of its development.

The following are some of the important relative roles of the public sector in the economic development of a country like India:

a. Promoting economic development at a rapid pace by filling gaps in the industrial structure;
b. Promoting adequate infrastructural facilities for the growth of the economy;
c. Undertaking economic activity in those strategically significant development areas, where private sector may distort the spirit of national objective;
d. Checking monopolies and concentration of power in the hands of few;
e. Promoting balanced regional development and diversifying natural resources and other infrastructural facilities in those less developed areas of the country;
f. Reducing the disparities in the distribution of income and wealth by bridging the gap between the rich and the poor;
g. Creating and enhancing sufficient employment opportunities in different sectors by making heavy investments;
h. Attaining self-reliance in different technologies as per requirement;
i. Eliminating dependence on foreign aid and foreign technology;
j. Exercising social control and regulation through various public finance institutions;

k. Controlling the sensitive sectors such as distribution system, allocating the scarce imported goods rationally etc.; and

l. Reducing the pressure of balance of payments by promoting export and reducing imports.

Relative Role of Private Sector in India:

India, being a mixed economy, has assigned a great importance on the private sector of the country for attaining rapid economic development. The Government has fixed a specific role to the private sector in the field of industries, trade and services sector. The most dominant sector of India, i.e., agriculture and other allied activities like dairying, animal husbandry, poultry etc. is totally under the control of the private sector. Thus private sector is playing an important role in managing the entire agricultural sector and thereby providing the entire food supply to the millions.

Moreover, the major portion of the industrial sector engaged in the non-strategic and light areas, producing various consumer goods both durables and non-durables, electronics and electrical goods, automobiles, textiles, chemicals, food products, light engineering goods etc., is also under the control of the private sector. Private sector is playing a positive role in the development and expansion of aforesaid group of industries. Besides, the development of small scale and cottage industries is also the responsibility of-the private sector. Finally, the private sector is also having its relative role in the development of tertiary sector of the country. The private sector is managing the entire services sector providing various types of services to the people in general.

The entire wholesale and retail trade in the country is also being managed by the private sector in a most rational manner. Moreover, the major portion of the transportation, especially in the road transport is also managed by the private sector. With the growing liberalization of Indian economy in recent years, the private sector is being assigned with much greater responsibility in various spheres of economic activities.

Sectors In Indian Economy Public And Private Economics

This essay has been submitted by a student. This is not an example of the work written by our professional essay writers.

Indian economy is the eleventh largest economy in the world by nominal GDP. India is an emerging economic power with very large group of human and natural resources and large group of skilled professionals. Economic predict that by 2020 India will be the leading economies of the world. India was under social democratic based policies from 1947 to 1991. The economy of India is characterised by extensive regulation, protectionism, public ownership, corruption and slow growth. Since 1991, continuing economic liberalisation has moved the country toward a market based economy. By 2008 India had establish itself as the world second fastest growing major economy. A revival of economic reforms and better economic policy in 2000s accelerated India's economic growth rate.

Due the massive growth of the Indian middle class this huge country may become Asia's first major 'buy' economy in the world. Indian GDP grown at 7.8% during 2005-2006. India is a socialist controlled economy. India's huge amount of labour, trained technical manpower and English-speaking population are seen as valuable assets in the global economy, particularly in the services, research and manufacturing sectors. Growth in the Indian economy has increasingly since 1979 and averaging 5.7% per year in the 23 year growth record.

PUBLIC SECTOR

"The part of the economy concerned with providing basic government services."

The public sector has been playing a vital role in the economic development of the country. Public sector is considered a powerful engine of economic development and an important instrument of self-dependence.

OBJECTIVES:

1. To promote rapid growth and development through creation and expansion of infrastructure.
2. To generate financial resources for development.
3. To promote redistribution of income and wealth.
4. To create employment opportunities.
5. To promote regional growth and development.
6. To promote the development of small scale and secondary industries.
7. To promote exports on the one side and import substitution.

PRIVATE SECTOR

Private sector is the part of the economy which is run by the individual and groups. Their main motive is profit earning. It is not controlled by state.

OBJECTIVES:

1. Profit maximisation.
2. Sales maximisation.

INFRASTRUCTURE SECTOR

In the past, development of the infrastructure was completely in the hand of the public sector and was plugged by corruption, bureaucratic inefficiencies, urban- bias and an inability to scale investment. This has encouraged the government to partially open up infrastructure to the private sector allowing foreign investment. Almost all of the electricity in India is produced by the public sector. Power outages are common. Multy Commodity Exchanges has tried to get a permit to offer electricity future markets, India has the world's third largest road network in the world. Container traffic is growing at 15% a year. Several fiscal incentives were announced by the government to boost investment in infrastructure project. Ten year tax holiday offered to project in core sector like roads, highways, waterways, sanitation and solid waste management system can now be availed of during initial 20 years.

Project in airports, ports, inland ports, industrial parks, and generation and distribution of power can now avail tax holidays during the initial 15 years. The railways has also started a scheme to privatise several services including maintenance of railway stations, providing meals to passenger drinking water and cleaning of trains. Some project have been executed based on the public -private partnership agreement.

ROLE OF PRIVATE AND PUBLIC SECTOR IN INFRASTRUCTURE SECTOR PUBLIC SECTOR:

In this government owned and operated infrastructure as well as public buildings such as court, school, and houses. The term public infrastructure refers to the industrial capital involved in these activities. An internal improvement is some constructed objects that augment a nation economic infrastructure examples: airports, canal, dams, pipelines, roads, railways etc. Municipal infrastructure, urban infrastructure and rural infrastructure are often used interchange but imply either large cities or developing nations concerns respectively. The terms public infrastructure or critical infrastructure are also used interchangeably but suggest the addition of some facilities like hospitals, banks and concerns like national security and terrorism which are not under the permission of local officials alone.

PRIVATE SECTOR:

In the past years the infrastructure sector is owned by the public sector but now day's Private sector also plays an active role in the infrastructure sector. In all other infrastructure sector private activity remain passive. This has encouraged the government to partially open up infrastructure to the private sector allowing foreign investment. This has helped in a sustained growth rate of close to 9% for the past six quarters. The railways has also started a scheme to privatise several services including maintenance of railway stations, providing meals to passenger drinking water and cleaning of trains.

INDUSTRY &SERVICE SECTOR

Industrial sector in India contributes meagre 27% of the country GDP. However, about one-third of the industrial labour force is engaged in simple household manufacturing only. In absolute terms, India is 16th in the world in terms of nominal factory output. The reduction of excise duties on the passenger cars from 32 to 24 percent, improvements in the retail credits and reduction in the teriffs has greatly fuelled the growth of the industry.

Economic reforms brought foreign competition, led to privatelisation of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast moving consumer goods. Post liberalization, the Indian private sector, which was usually run by oligopolies of old family firms and required political connection to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labour costs and technology. India is the largest consumer of gold in the world followed by china. The main export destination of India is UK and Switzerland.

The service sector now accounts for more than half of the India GDP. The sector has gained at the expense of the both the agriculture and industry sector throughout the 1990. The rise in the service sector share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of the developed economy. They says that service sector growth must be supported by proposianate growth of the industrial sector otherwise the service sector growth will not be sustainable.

ROLE OF PRIVATE AND PUBLIC SECTOR IN INDUSTRY AND SERVICE SECTOR

PUBLIC SECTOR:

A service is helping others with specific needs or wants. The volunteer fire dept. And ambulances, corps, are institution of public sector which provides services to the community. Many public hospitals are also formed. All these services are essential for people lives. A public services may sometimes have the characteristics of a public good. In most cases public services are services, i.e. they do not involve manufacturing of goods such as nuts and bolts

PRIVATE SECTOR:

The Indian private sector, which was usually run by oligopolies of old family firms and required political connection to flourish was faced with foreign competition, including the threat of cheaper Chinese imports. In private sector we talk about customer and the customer value proposition. A variety of legal structures exist for private sector business organizations, depending on the jurisdiction in which they have their legal domicile. Individuals can conduct business without necessarily being part of any organization.

AGRICULTURE SECTOR

More than half of the population is depend upon the agriculture sector. In India around 45 percent of the total land is cultivated. Rice, wheat, pulses, and oilseeds dominate the agriculture production in India. India is the largest producer of tea, jute. Among livestock, cattle, and buffalos are found maximum in India. Indian total production of milk in the world is the highest.

India has largest irrigated in the world. Among cereal production India is third, second largest producer of wheat and rice and largest producer of pulses in the world. Dairy farm, fishery, and forestry are the important parts of the agriculture sector. However full potential of the Indian agriculture as a profitable activity hasn't been realised as yet. The food grains production in India depends on largely on monsoons. Among other plantation crops, coffee has contributed significantly to the Indian economy since independence. There has been steady rise in the flow of agriculture credit in Indian context. India's agriculture is highly sensitive to the variability in rainfall. The agency wise share of the credit flow to the agriculture show that commercial bank have accounted for the major share followed by the regional bank and rural banks. India is also fourth largest producer vegetable oil producer.

This is because India imports items like palm oil and export items like coconut oil, sunflower oil and soya oil.

PRIVATE AND PUBLIC SECTOR

PUBLIC SECTOR:

Agriculture and rural development is a public concern that generated many innovative institutional arrangements. They had in common an interpretation of the imperfections of the state, assumptions on the reasons for failures in implementation and convictions on the most productive and innovative role of markets and civil society organizations for satisfying human needs and attaining development goals. Four aspects are relevant for public sector :

1. Structural differentiation
2. Financial resources
3. Human resources

Information and knowledge

The ministries of agriculture have changed their traditional structures. The ministry of agriculture and their organisation were financed with resources of national budget. Public sector organisations are the central in these processes and the equality of institution.

PRIVATE SECTOR:

The share of private sector in capital formation in Indian agriculture is three times more than the public sector. This shows the active involvement of the private agencies in the Indian agriculture sector. The private sector, while having the revenue generating mindset, also takes care of the socio issues. The private investment in agricultural sector is on the rise and several agribusiness companies have developed new models to reach to farmers. Some examples of the private agencies are: Tata kisan Kendra, Haryali kisan bazaar, Mahindra krishi vihar, Indiagriline, Pepsi co.

TELECOM SECTOR

This sector has moved from being completely under pubic control to privatisation. Post independence the Indian government had decided that the telecommunication system would be entirely managed under the public sector. Posts, Telephone, Telegraph were instituted in 19947 under the ministry of communications. In 1984 private companies were allowed to manufacture and market the equipments. Under the policy the government stimulated domestic private investment and foreign direct investment to cover the huge capital requirements.

The telecom services have been recognized the world over as an important tool for socio economic development for a nation. It is the prime support services needed for rapid growth and modernization of various sector of the economy. Indian telecommunication sector has undergone a major process of transformation through significant policy reforms, particularly beginning with the announcement of NTP 1994 and was subsequently re-emphasized and carried forward under NTP 1999. Driven by various policy initiatives, the Indian telecom sector witnessed a complete transformation in the last decade. It has achieved a rare growth during the last few years and is poised to take a big leap in the future also.

PRIVATE/PUBLIC SECTOR

PUBLIC SECTOR:

The public sector telecom plays a leading role in the country telecommunication development there causal to the modernization of the country. Due to the establishment of the public sector telecom the promotion of the modern telecommunication facilities were improved. The most of the benefit reach to the general public due to this. . In the post modernization era the government undertook trend-setting measures in its policies to bring in strong communication facilities. The telephone facilities including STD & ISD were reached even in remote village areas of the country bringing in radical changes in the lives of people. Example of public telecom sector is: BSNL, VSNL, MTNL and ITI ltd.

PRIVATE SECTOR:

The government allowed private sector to operate in the telecom sector. Private participation has also increased saturation in the market with tele-density touching. Private agencies have garnered a huge portion of the wireless market share. The private sector was allowed to compete with the existing public sector services providers in basic services. As regard the private sector the policy has led to freedom in adding to capacities deli censing of some industries and allowing of investment in certain areas.

BANKING AND FINANCIAL SECTOR

Financial sector can be considered as the most exposed sector with respect to globalisation. The banking sector reforms were guided primarily by the recommendation of the committee on financial system. The Indian money market is classified into two sectors: organised and unorganised sector. Organised sector commercial banks and cooperative banks. And unorganised sector are preferred over traditional banks in rural and sub urban areas, especially for non productive purposes like ceremonies and short duration loans.

Prime minister Indira Gandhi nationalized 14 banks in 1969 and followed by six other in 1980 and made it compulsory for banks to provide 40% of their net credit to preference sectors like agriculture, small-scale industry, retail trade, small businesses, etc. To ensure that the bank fulfil their social and developmental goals. . While some of these relate to nationalised banks (like encouraging mergers, reducing government interference, increasing profitability and competitiveness) other reforms have opened up the banking and insurance sectors to private and foreign players. More than the half of personal saving is invested in physical asset such as land, house, cattle, and gold. Indian has the highest rate in the world at 36 percent.

PRIVATE /PUBLIC SECTOR

PRIVATE SECTOR:

Initially all the banks in India were private banks. Private sector banks are to be registered as public limited companies in India. The authority is granted a license lies with the RBI. The shares of the private banks are to be listed in the stock exchange. . The new bank would not be allowed to have as its director any person who is already a director in a banking company. Private banking services can be purely optional in nature according to government conditions. Private Banks in India include leading banks like ICICI Banks, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Kotak Mahindra Bank, SBI Commercial and International Bank, etc.

PUBLIC SECTOR:

The public sector is the one whose working is in the hand of government. The majority of public sector industries are hold by the government. Most of the activities are controlled by the government. Due to the privatization of the public sector banking, their nimbler has reduced to significant extent. The public sector banks has implemented 14 points action plan for strengthening of credit delivery to women and has designated 5 branches as specialized branches for women entrepreneurs. Example of public sector banks are: bank of Baroda, bank of India, bank of Maharashtra, Canara bank, Punjab national bank, Indian bank etc.

EDUCATION SECTOR

India has made huge progress in terms of increasing primary education attendance rate and expanding literacy to approximately two thirds of the population. The right to education at primary level has been made one of the fundamental rights under the Eighty-Sixth amendment of 2002. However the literacy rate of 65% is still lower than the worldwide average and the country suffers from high dropout rate. In India Kerala have the highest literacy rate of 90.92% as compared to other states of India. India improved education sector is main contributors to the economic rise of India. The private education market in India is estimated to be worth $40 billion in 2008 and will increase to $68 billion in 2012.

The Indian government lays importance to primary education up to the age of 14 years referred to as Elementary Education in India. The Indian government has also banned child labour in order to certify that the children do not enter insecure working conditions. Education has also been made free for children for 6 to 14 years of age or up to class 8 under the Right of Children to Free and Compulsory Education Act 2009. Education in India cataract under the control of both the Union Government and the states with some responsibilities lying with the Union and the states having independence for others. In 2004 the Indian parliament allowed an act which enable minority education establishments to search for university affiliations if they approved the required norms. The 2001 figures also indicated that the total number of complete non-literates in the country was 304 million.

PRIVATE/PUBLIC SECTOR

PRIVATE SECTOR:

The private education market in India is estimated to be worth $40 billion in 2008 and will increase to $68 billion in 2012. Private schools often provide greater results at a portion of the unit cost of government schools. But a private school fails to provide education to the poor families. The ratio of teachers and students in private schools are much better in private schools. Private schools are often operating illegally. Even the poorest often go to private schools although the fact that government schools are free. A study found that 65% of schoolchildren in Hyderabad slums attend private schools.

PUBLIC SECTOR:

Education in India is mainly provided by the public sector with control and funding coming from three levels: federal, state, and local. Child education is compulsory. Education in India falls under the control of both the Union Government and the states with some responsibilities lying with the Union and the states having autonomy for others. The Indian government lays importance to primary education up to the age of 14 years referred to as Elementary Education in India.

GOVERNMENT CONTROLLED SECTOR COMPANIES

BHARAT DYNAMIC LTD

BDL was established in July 1970 under the control of Ministry of Defence with the main objective of establishing a production base for guided missiles in India. It is now one amongst a few planned industries of the world having the capability to produce the most advanced guided missile systems for Armed Forces.

BHARAT HEAVY ELECTRICALS LTD

BHEL manufactures over 180 products under 30 major product groups and caters to core sectors of the Indian Economy for example: Power Generation & Transmission, Industry, Transportation, Telecommunication, Renewable Energy, etc. The wide network of BHEL's 14 manufacturing divisions four Power Sector regional centers, over 100 project sites, eight service centers.

BHARAT SANCHAR NIGAM LTD

On October 1, 2000 the Department of Telecom Operations, Government of India became a corporation and was christened Bharat Sanchar Nigam Limited (BSNL). Today, BSNL is the No. 1 Telecommunications Company and the largest Public Sector Undertaking of India with authorized share capital of $ 3600 million and net worth of $ 13.85 billion. It has a network of over 45 million lines covering 5000 towns with over 35 million telephone connections.

BONGAIGON REFINERY & PETROCHEMICALS LTD

Bongaigaon Refinery & Petrochemicals Limited (BRPL) was incorporated as Government of India Undertaking under the administrative control of the Ministry of Petroleum and Natural Gas on 20th February 1974. The company became a subsidiary of Indian Oil on 29th of March 2001 after disinvestments of share by Govt of India.

COAL India LTD

he company is incorporated under the Companies Act, 1956 and is wholly owned by the Government of India (GOI). Company's objective is to promote the development and utilisation of the coal reserves in the country for meeting the present and likely future requirement of the nation with due regard to need for conservation of non-renewable resources and safety of mine workers.

FOOD CORPORATION OF INDIA

The Food Corporation of India was setup under the Food Corporations Act 1964, in order to fulfil objectives of the Food policy. Effective price support operations for safeguarding the interests of the farmers. Distribution of food grains throughout the country for Public Distribution System; and Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security.

PRIVATIZATION

"Privatization is a process of transferring possession business, enterprise, agency or public service from the public sector to private sector."

PRIVATE OWNED COMPANIES

RELIENCE INDUSTRIES LIMITED:

Reliance is a India's largest private sector company by market value. It was founded by the Indian industrialist Dhirubhai Ambani in 1966. Ambani has been a found in introducing financial instruments like fully changeable debentures to the Indian stock markets. Ambani was one of the first entrepreneurs to draw retail investors to the stock markets. Critics allege that the rise of Reliance Industries to the top slot in terms of market capitalization is largely due to Dhirubhai's ability to manipulate the levers of a controlled economy to his advantage.

WIPRO TECHNOLOGIES LIMITED:

It is a huge information technology services corporation headquartered in Bangalore in India. It is the one of the largest IT services company in India. It has notice shifting from information technology, consumer care, lighting, engineering and health care business. It is the ninth valuable brand in India.

TATA STEEL LIMITED:

It is formally known as TISCO (Tata iron and steel company limited. It is the seventh largest company in the world. It is the largest private sector company in India in domestic production. It is the part of Tata group of companies. It is the 8th most valuable brand according to the annual survey of 2010. Its main plant was located in Jharkhand, Jamshedpur. It is also become a multinational company due to the operation in various countries. It is also listed in Bombay stock exchange and national stock exchange of India.

BAJAJ AUTO LIMITED:

It is the major Indian automobile manufacturer in India. It was started by a Rajasthani merchant. The company has successfully changed its image from scooter manufacturer to two wheeler manufacturer. Bajaj Auto came into survival on November 29, 1945 as Ms Bachraj Trading Corporation Private Limited. It started sour by selling imported two- and three-wheelers in India. In 1959, it obtained license from the Government of India to manufacture two- and three-wheelers and it went public in 1960.

CONCLUTION

Private and public both sectors have contributed in the development of India. But both have got Short comings. The need of the hour is that both sectors should work in compatibility with each other. Rather than contrast Joint efforts of these will rush the economic development and India Will is a developed country.

Industrial Sickness: Meaning, Incidence, Nature and Factors

Meaning of Industrial Sickness:

The strength of the industrial sector, by and large, determines the soundness of the economy.

A developing economy like India cannot afford the growing sickness in industries as it results in a colossal wastage of physical, financial and human resources. In the presence of the resource crunch, the industrial sickness becomes all the more an alarming problem. Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.

The Reserve Bank of India has defined a sick unit as one "which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1: 1 and there is worsening trend in debt-equity ratio." The State Bank of India has defined a sick unit as one "which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds."

However, prior to the enactment of Sick Industrial Companies Act (SICA) in 1985, there was no agreement on the criteria to be used to describe an industrial unit as sick. According to SICA, as amended in 1992, an industrial company can be declared as sick which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. It may be noted that Sick Industrial Companies Act (SICA) applies to registered companies which have been in existence for at least 5 years.

In case of small scale industrial unit (SSI), it is regarded as a sick unit if it has:

a. Incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and further its cumulative cash losses are equal to 50 per cent or more of its peak net worth during the last five years and
b. It has defaulted in meeting four consecutive installments of interest.

According to the Development Commissioner, a small scale industrial unit (SSI) becomes sick if its:

a. Capacity utilisation is less than 50 per cent of the highest achieved during the preceding five years (incipient sickness)',
b. Net worth has been eroded by more than 50 per cent; and
c. The unit has remained closed for a period more than six months.

On the basis of the above definitions of a sick industrial unit, it emerges that the symptoms of the sickness of an industrial unit manifest themselves in the form of unbalanced financial structure, erosion of more than 50 per cent of its net worth, absence of the generation of internal surplus, under-utilisation of capacity and survival of the unit upon frequent infusion of funds.

Incidence of Industrial Sickness:

A very disquieting feature of the industrial scenario is the mounting incidence of industrial sickness. It is a matter of deep concern not only for shareholders and creditors of the sick concerns but also to the society at large. There is sickness of industries both in the large-scale sector (i. e., Non- SSI sector) and in the small-scale industries (SSI). Growing incidence of sickness has been one of the pressing problems faced by the industrial sector in India. Substantial amounts of banking funds are locked up in these sick industrial units.

There was a problem of increasing industrial sickness even before the new policy of liberalisation and globalisation adopted in 1991. Thus the number of SSI sick units increased from 58,551 in 1982, rose to 2.21 lakhs in March 1991 and to 2.52 lakhs in end-March 2001. Table 38.1 gives the number of sick industrial units both in the small scale industrial (SSI) sector and non-small scale industrial (non-SSI) and the outstanding bank credit locked in them.

It will be seen from Table 38.1 that though the number of large and medium sick industrial enterprises (i.e., non-SSI sick units) is much smaller than SSI sick units, the outstanding bank credit locked in them is much greater than that in SSI sick units.

It may be noted that in the sick industrial companies, a lot of resources of banks are locked up. The data reveal that as on March 31, 2001, 3,317 non-SSI sick industrial units accounted for an outstanding bank credit of Rs.21, 270 crores. Industry-wise data show that five industries, namely, textiles, engineering, electrical, chemicals and iron and steel accounted for about 56 per cent of total outstanding bank credit.

There has been a phenomenal rise of industrial sickness over the last few years. It is significant to note that sickness has been growing faster in the small-scale sector than in large and medium- scale sectors. At the end of March 2001, there were 252,947 sick units. Out of these, 249,630 were small-scale sick units against whom outstanding bank credit was Rs. 4,506 crores. (See Table 38.1)

Table 38 .1 : Industrial Sickenss – End-March, 2001

Category	No. of Units	Outstanding Bank Credit
		(₹ Crores)
1. SSI Sick Units	249,630	4,506
2. Non-SSI Sick Units	3,317	21,270
Total	252,947	25,776

Nature and Causes of Industrial Sickness:

Competition breeds efficiency but adversely affects weak industrial units and makes them sick. The clear directional changes since 1982-83 towards liberalisation of industrial licensing policies, foreign collaboration approvals, the concept of minimum-size plants are welcome from consumers' point of view. But the weaker units have to pay the price. The inevitable cost of achieving competitive efficiency is that the weak must be allowed to fade. But the country cannot allow this to happen.

The Sick Industrial Companies (Special Provisions) Act, 1985, was enacted to help and revive the sick units. The substantive portions of the Act came into force from May 15, 1987. The Act provided for setting up of a quasi-judicial body designated as the Board for Industrial and Financial Reconstruction (BIFR) to deal effectively with the problem of sick industrial companies. The Reserve Bank of India has issued guidelines to banks to strengthen the monitoring system and to arrest industrial sickness at the incipient stage.

Nature of Sickness:

Sickness in industry can be classified into:

a. Genuine sickness which is beyond the control of the promoters of the concern despite the sincere efforts by them,
b. Incipient sickness due to basic non-viability of the project, and
c. Induced sickness which is due to the managerial incompetence and wrong policies pursued deliberately for want of genuine stake.

This is a man-made sickness in which some unscrupulous promoters adopt fraudulent practices to start a concern and to get away with the money obtained by fraud and deceit.

The FICCI study entitled 'Industrial Sickness — Dimensions and Perspectives' says that the causes of sickness are both internal and external, often operating in combination. External factors are government policies on pricing, duties, taxes, high interest rates, taxes on profit, slackness in demand, sluggishness in export markets, high labour cost, inadequate availability of inputs, lack of infrastructure and the like.

The internal factors which contribute to sickness are wrong planning in relation to location, technology, capital cost, technological obsolescence, management deficiencies and industrial unrest. We explain below these external and internal factors in some detail.

External Factors:

The following are some of the external factors causing industrial sickness in India:

(i) General Recessionary Trend:

Sometimes a general depression hits industrial units. This is reflected in lack of demand for industrial products in general. An overall slowdown in economic activities affects the performance of individual projects. Improper demand estimation for the products to project lands the industrial units in difficulties.

(ii) High Prices of Inputs:

When the costs of manufacture are high and sales realisation low, the industrial unit cannot stand in the market. This happens when the prices of inputs such as price of fuel such as petroleum during energy crisis goes up whereas the competitive forces keep down the prices of the products.

(iii) Non-Availability of Raw Materials:

When the supplies of raw materials are not available regularly or in good quality, the industrial units are bound to be in trouble. This often occurs in case of supply of imported raw materials.

(iv) Changes in Government Policies:

The industrial sickness is also caused by certain changes in policy designs of the government. These frequent changes affect the long-term production, financial and marketing planning of an industrial unit. Changes in Government policies regarding imports, industrial licensing, taxation can make viable units sick. For example, liberal import policy since 1991 has rendered many small-scale industrial units sick.

(v) Infrastructure Bottlenecks:

Often the infrastructure difficulty is responsible for industrial sickness. No industrial unit can survive prolonged transport and power bottlenecks.

Internal Factors:

The following are the important internal factors which are often responsible for industrial sickness:

(i) Project Appraisal Deficiencies:

The industrial unit becomes sick when the unit has been launched without a comprehensive appraisal of economic, financial and technical viabilities of the project.

(ii) Industrial Unrest and Lack of Employee Motivation:

When there is labour discontent, no industrial unit can function smoothly and efficiently. When labour lacks motivation no good results can be expected and this results in sickness and non-viability of several industrial units.

(iii) Wrong Choice of Technology:

If the promoters use wrong technology, results are bound to be unsatisfactory. Many industrial units, especially in the small-scale sector, do not seek professional guidance in installing the correct machinery and plant. If the machinery and plant installed turn out to be defective and unsuitable, they are bound to suffer losses and become sick and non-viable.

(iv) Marketing Problems:

The industrial unit becomes sick due to product obsolescence and market saturation. The industrial unit becomes sick when its product-mix is not attuned to the consumers' demand.

(v) Wrong Location:

If the location of an industrial unit happens to be defective either from the point of the market or the supply of inputs, it is bound to experience insurmountable difficulties.

(vi) Lack of Finance:

Inadequate financial arrangements or in the absence of timely financial aid an industrial unit is bound to come to grief. It will not be able to withstand operational losses.

(vii) Improper Capital Structure:

If capital structure proves to be unsound or unsuitable especially on account of delayed construction or operation, it will result in cost overruns or unduly large borrowing and create financial trouble for the unit concerned.

(viii) Management Deficiencies:

The biggest cause of industrial sickness is the managerial inefficiency. Lack of professional management or experienced management and the existence of hereditary management is an important cause of industrial sickness. Inefficient management results in inability to perceive things in proper perspective devoid of routine considerations. Inefficient management is also unable to build up good team and inspire confidence for an organised collective effort and takes autocratic and high-handed decisions.

(ix) Voluntary Sickness:

There is some sickness which is voluntarily invited by the entrepreneurs for various motives like getting government concession or aid from financial institutions. Thus industrial sickness cannot be attributed to any single, or simple cause but may be the result of a combination of number of allied causes.

An analysis of 637 large-scale units identified that deficiency in management was responsible for 52 per cent cases of sickness. While labour troubles caused sickness only in 2 per cent of the industries, market recession and environmental factors came second with 23 per cent.

The other causes were technical factors and faulty initial planning (14 per cent) and infrastructural factors such as power cuts and shortage of critical inputs (9 per cent). Of the 637 large units, 350 could be put back on the track. Of these, 221 units, with the outstanding credit of Rs. 1,125.06 crores were put under the nursing programme.

Suggestions for Rehabilitation of Sick Units:

The rehabilitation of sick units or restoring them to normal health is a matter of great urgency in view of the serious social, economic and political consequences of industrial illness.

The following measures may be suggested:

(i) Cooperation between Term-Lending Institutions and Commercial Banks:

Since commercial banks provide working capital, they are in a position to know about the working of industrial concern. But assistance from term-lending institutions is also essential for rescue operations.

(ii) Coordination between Various Government Agencies:

All government agencies, both regulatory and promotional, must join hands to restore sick units to health.

(iii) Full cooperation from various suppliers,' unsecured creditors and other stakeholders, particularly from the employees, is also essential to take the concern out of the difficulties in which it is involved.

(iv) Willing Cooperation and Clear Understanding with the Project Promoters:

Generally there is a lack of trust and confidence among the various interests concerned. It is found that government agencies and dealing institutions are more worried about their money and are anxious to recover them instead of curing of the health of the sick units.

(v) Checking Over-Valuation of Inventories:

The banks should verify on a regular basis the valuation of inventories both in terms of quantity and price. This would prevent over-borrowing on the hypothecation of inventories.

(vi) Marketing:

There should be well organised and scientific marketing by the project promoters otherwise launching of a project will be a leap in the dark. Good marketing arrangements will prevent industrial sickness.

(vii) Recovery of Outstanding:

Every effort should be made to realize outstanding advances so that the concern is able to gather funds to avoid sickness.

(viii) Modernisation of Machinery:

If the sick unit is to be restored to health, old and obsolete machinery and outdated technology should be discarded at the earliest.

(ix) Improving Labour Relations:

Restrictive labour and unreasonable trade unions are great obstacles. Improving labour relations will go a long way in curing industrial sickness.

(x) Efficient Management:

If necessary inefficient management should be replaced. The key to industrial health lies in alert and efficient management. The management should show a calm approach, patience and perseverance, courage and ability to steer in bad weather.

(xi) Performance Incentives:

It is necessary to offer performance incentives to the executives and the workers to induce them to put in their best efforts. This will be quite helpful in curing industrial sickness.

(xii) Sympathetic Government Attitude:

During periods of industrial illness the government agencies should adopt a sympathetic and understanding attitude so that the problem is not aggravated but moves towards a solution instead.

(xiii) Austerity and Economy:

Austerity and disciplines should be enforced at all levels. Every effort should be made in raising funds internally through the sale of excess assets, surplus machinery, etc. Uncalled for tours, lavish entertainments, unnecessary personal expenses should be ruthlessly cut down.

Conclusion:

In view of the large-scale industrial sickness it would be necessary to organize a task force consisting of competent and experienced executives in various branches of business to go into the case and monitor recovery. Rehabilitation of sick units is not an easy and simple affair. An all-round effort is necessary to root out the disease, first necessary step is the identification of sick units which can be made viable through renovation, expansion, and diversification. Units beyond recovery should be wound up.

The second step is the reconstitution of management. Where the management is unwilling or unable to play its proper role, the financial institutions and the government agencies should intervene to fulfill their large social responsibility of ensuring efficient use of national resources. Since industrial sickness is due both to external causes, e.g., general recession, and internal causes like dishonest and inefficient management, the remedy must also lie in both directions.

With a view to meeting the situation, the early warning system is strengthened. Viability studies should be undertaken to identify the sick units including creeping sickness which could be eventually restored to health with additional financial aid on liberal and easy terms. To an extent increase in industrial sickness is inevitable result of the very process of modernisation or technological development industry. It is natural that the units which cannot keep pace with the ongoing technological change will become sick, they should be allowed to wind up.

Sources of Industrial Finance in India

Introduction

By industrial finance we mean the organization of various types of finance needed by industries for their activities connected with the production of goods and services. Production activities include construction of buildings, purchase of machines, their repair, purchase of raw materials, engagement of laborers etc. For the performance of these activities, three types of finances are needed such as long-term, medium-term and short-term.

Source of Industrial Finance

The sources of finance for large- scale industries are as follows:

1. Shares and Debentures: A large part of fixed investments comes from different types of shares such as ordinary, cumulative and non-cumulative preference shares. From time to time industrial companies get long-term finance through the issue of debentures. The buyers of these debentures are the creditors of companies. They get a fixed rate of interest on the money invested in debentures. For this reason debentures are safer investments.

2. Public Deposits: In some parts of the country (e.g. Bombay, Ahmedabad) a system of public deposits prevails. Under this system, people keep their money as deposit with these companies for a period of six months or a year. Depositors receive a fixed interest. They can demand the refund of money at any time. This money is used by the companies to meet their needs of working capital. But this source of finance is unreliable because depositors can seek refund at any time. With the growth of banking habits and increase in dealings with financial institutions, the importance of public deposits as a source of finance is slowly declining.

3. Loans from Banks: Commercial banks can and do provide funds for working capital. Loans are given against the guarantee of government securities with companies. Loans are advanced in the form of overdraft and cash.

4. Managing Agency System: Under this system an individual finance the initial stage of the establishment of industries and manage many activities of the company thus established. Very often, one managing agent controls more than one concern and uses funds of one concern to meet the needs of others under him.

In the past when there was great shortage of industrial finance, managing agents did render a valuable service for the promotion of industries within the country. In course of time, however, the system developed certain drawbacks, and in 1970 the Government abolished the system.

5. Indigenous Bankers: In spite of establishment of new financial institutions indigenous bankers have advanced financial help to a few large-scale industries both for fixed capital and working capital. But they mainly provide finance to small-scale industries. These bankers charge a very heavy rate of interest. To-day, the importance of this source is on the decline.

6. New Institutions for Industrial Finance: These institutions may be grouped under the broad heading of development banks. Established with the help of the Government to fill in the gaps in industrial finance and to promote the objectives of planning, these institutions cater to the needs of large and small industries. The new institutions supplying industrial finance are IFCI, SFC, IDBI, ICICI, NIDC, UTI and LIC etc.

Sources of Finance for Small Industries

Small industries need three types of finance—long-term finance for machinery, medium-term finance for repair and replacement of equipment and short-term finance for purchase of raw materials etc.

Moneylenders still an important source of finance for small-scale industries. In urban areas, small industries draw finance from indigenous bankers and corporate investment banks. Recently started by the Government, Industrial Corporation also provides finance to these industries. In addition, the state government also lends money under various State Assistance Acts.

Commercial banks too have become an important source of finance.

Realizing the limitations such as the urban orientation of commercial banks, the government established regional rural banks to meet the credit needs of rural cultivators, artisans and small traders, State Financial Corporations have been established to solve the financial difficulties of small-scale industries.

Role of Small-Scale Industries in a Developing Economy

The case for the development of small-scale industries is particularly strong in under-developed but developing countries like India. These small-scale industries satisfy many of the investment criteria that one often prescribes for the planned development of the country.

Labour-intensive:

Firstly, small-scale industries are labour-intensive, i.e., labour-investment ratio in their case is quite high. A given amount of capital invested in small-scale industrial undertakings is likely to provide more employment, at least in the short run, than the same amount of capital invested in large-scale undertakings.

This is a very important matter for our country where millions of people are either unemployed or under-employed. Further, the encouragement of small-scale industry would serve to counteract the seasonal unemployment in agriculture and thus to utilise labour which might otherwise go to waste.

Capital-light:

Secondly, small-scale industries are capital-light, i.e., they need relatively smaller amount of capital than that required by large-scale industries, since the capital-output ratio is much smaller in the case of the former. Thus, one of the great advantages of small-scale industries is that they make possible economies in the use of capital. Capital is already scarce in an under-developed country like India.

Capital Formation:

Thirdly, besides making possible economies in the use of Ike existing stock of capital, small-scale industry may call into being capital that would not otherwise have come into existence. The spreading of industries over the countryside would encourage the habits of thrift and investment in the rural areas. Moreover, the enterprising Small manufacturer has to scrape together capital where he can find it. He often manages to get it from relatives and friends. This capital probably would never have come into existence as productive capital, had it not been for the small enterpriser.

Skill-light:

Fourthly, the peculiar attraction of small-scale industries lies in their being skill-light. A large-scale industry calls for a great deal of management and supervising skill—foremen, engineers, accountants, and so on. Like capital, these skills are also in very short supply in our country, and it is important to economies as much as possible in their use. Small-scale industry provides a way of doing this and, at the same time, provides industrial experience and serves as a training ground for a large number of small-scale managers. In India, with a long tradition of highly artistic products of cottage industry, there exists a considerable 'fund' of local and traditional skill. Small industry may be better able than large industry to take advantage of these existing traditional skills with minor adaptations.

Import-light:

Fifthly, small-scale industries are import-light, i.e., they use a relatively low proportion of imported equipment and materials as compared with the total amount used in them. A low-import intensity in the capital structure of the small-scale industries reduces the need for foreign capital or foreign exchange, and thus obviates the balance of payments difficulties later, and currently retains within the country a large part of whatever induced effects may materialize.

Quick Investment:

Sixthly, small-scale industries are of the "quick- Investment type", i.e., those in which the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short. In a developing economy, with a high inflationary potential and need for a rapid rise in the living standards, the importance of such quick-investment type industries can hardly be exaggerated. The small-scale industries have a high fruition co-efficient (i.e., a high ratio between planned output and investment) and also a short fruition lag.

Decentralisation:

Seventhly, the development of small-scale industries will bring about dispersion or decentralisation of industries, and will thus promote the object of balanced regional development. A major drawback in the industrial structure of an under-developed country is that regional distribution of industries is exceedingly uneven. On the one hand, there is a disproportionate growth of large-scale industries in a few areas, and on the other, a virtual absence of such industries in the greater part of the country. The development of small-scale industries will tend to correct this uneven distribution of industries in the country.

Equal Distribution of Income and Wealth:

Eighthly, small-scale and cottage industries have the additional advantage that, with decentralized industries, they secure a more even distribution of income and wealth. The development of large-scale industries tends to concentrate large incomes and wealth in a few hands. This is undesirable from the social point view, because it results in the exploitation of man by man. If also creates vested interests which put obstacles in the way of the economy marching towards its got' of socialistic pattern of society.

Overcoming Territorial Immobility:

Lastly, by carrying the job to the worker, small-scale industries can overcome the difficulties of territorial immobility. Moreover, unlike large industries, small-scale industries do not create problems of slum housing, health and sanitation, etc., and the attendant disease, misery and squalor. Thus, there is a strong case for encouraging small-scale industries in under-developed countries like India.

Important Role of Small Scale Industries in Indian Economy

Role of SSI in Indian Economy

Small scale industries play an important role for the development of Indian economy in many ways. About 60 to 70 percent of the total innovations in India comes from the SSIs. Many of the big businesses today were all started small and then nurtured into big businesses. The roles of SSIs in economic development of the country are briefly explained below.

1. Small Scale Industries Provides Employment

1. SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
2. SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
3. SSI accounts for employment of people in rural sector and unorganized sector.
4. It provides employment to skilled and unskilled people in India.
5. The employment capital ratio is high for the SSI.

2. SSI Facilitates Women Growth

1. It provides employment opportunities to women in India.

2.It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

3. SSI Brings Balanced Regional Development

1.SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.

2.It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.

3.It promotes urban and rural growth in India.

4.It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas. It plays an important role by initiating the government to build the infrastructural facilities in rural areas.

5.It helps in improving the standard of living of people residing in suburban and rural areas in India.

6.The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.

4. SSI Helps in Mobilization of Local Resources

1.It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.

2.It paves way for promoting traditional family skills and handicrafts. There is a great demand for handicraft goods in foreign countries.

3.It helps to improve the growth of local entrepreneurs and self-employed professionals in small towns and villages in India.

5. SSI Paves for Optimization of Capital

1.SSI requires less capital per unit of output. It provides quick return on investment due to shorter gestation period. The payback period is quite short in small scale industries.

2.SSI functions as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.

3.It encourages the people living in rural areas and small towns to mobilize savings and channelize them into industrial activities.

6. SSI Promotes Exports

1. SSI does not require sophisticated machinery. Hence, it is not necessary to import the machines from abroad. On the other hand, there is a great demand for goods produced by small scale sector. Thus it reduces the pressure on the country's balance of payments.
2. SSI earns valuable foreign exchange through exports from India.

7. SSI Complements Large Scale Industries

1. SSI plays a complementary role to large scale sector and supports the large scale industries.
2. SSI provides parts, components, accessories to large scale industries and meets the requirements of large scale industries through setting up units near the large scale units.
3. It serves as ancillaries to large Scale units.

8. SSI Meets Consumer Demands

1. SSI produces wide range of products required by consumers in India.
2. SSI meets the demand of the consumers without creating a shortage for goods. Hence, it serves as an anti-inflationary force by providing goods of daily use.

9. SSI Ensures Social Advantage

1. SSI helps in the development of the society by reducing concentration of income and wealth in few hands.
2. SSI provides employment to people and pave for independent living.
3. SSI helps the people living in rural and backward sector to participate in the process of development.
4. It encourages democracy and self-governance.

10. Develops Entrepreneurship

1. It helps to develop a class of entrepreneurs in the society. It helps the job seekers to turn out as job givers.
2. It promotes self-employment and spirit of self-reliance in the society.
3. Development of small scale industries helps to increase the per capita income of India in various ways.
4. It facilitates development of backward areas and weaker sections of the society.
5. Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

Monopoly in India

In the preceding section, we analysed the behaviour of a perfectly competitive market structure with very large number of small firms. Monopoly is strictly opposite to perfect competition. 'Monopoly' is derived from two Greek words: 'Monos' means single and 'polus' means a seller. Monopoly refers to a market situation where there is a single seller selling a product which has no close substitutes. For example, Railways in India.

Features of Monopoly:

The various features of Monopoly are:

1. Single Seller:

Under monopoly, there is a single seller selling the product. As a result, the monopoly firm and industry is one and the same thing and monopolist has full control over the supply and price of the product. However, there are large numbers of buyers of monopoly product and no single buyer can influence the market price.

2. No Close Substitutes:

The product produced by a monopolist has no close substitutes. So, the monopoly firm has no fear of competition from new or existing products. For example, there is no close substitute of electricity services provided by NDPL. However, the product may have distant substitutes like inverter and generator.

3. Restrictions on Entry and Exit:

There exist strong barriers to entry of new firms and exit of existing firms. As a result, a monopoly firm can earn abnormal profits and losses in the long run. These barriers may be due to legal restrictions like licensing or patent rights or due to restrictions created by firms in the form of cartel.

4. Price Discrimination:

A monopolist may charge different prices for his product from different sets of consumers at the same time. It is known as 'Price Discrimination'.

5. Price Maker:

In case of monopoly, firm and industry are one and the same thing. So, firm has complete control over the industry output. As a result, monopolist is a price-maker and fixes its own price. It can influence the market price by changing the supply of the product.

Reasons for Emergence of Monopoly:

A firm enjoys monopoly when it is the sole seller of its product and the product has no close substitutes. The fundamental cause of monopoly is the barrier to entry.

The various reasons for emergence of Monopoly are:

1. Government licensing:

It means that before a firm can enter an industry, it needs to take permission from the government. Licensing is used to ensure minimum standards of competency. By not granting licenses to new firms, government aims to assure that only one firm operates in the market.

2. Patent Rights:

Certain big private companies are engaged in research and development activities. At times, they come up with new products or new technologies. As a reward for their risk and investment in research, government grants them patent right. The period for which patent rights are granted is known as patent life.

For Your reference:

'Xerox 914' was the first marketable automatic and plain-paper copier. So, it was granted 15-year exclusive patent rights to xerography (a dry photocopying technique).

3. Cartel:

Under cartel, some firms retain their individual identities but coordinate their output and pricing policies in order to act as a monopoly. The firms agree among themselves to restrict their total output to the level that maximizes their joint profits. The most famous example of Cartel is 'Organisation of Petroleum Exporting Countries (OPEC)' formed in 1960, that led to virtual monopoly in the world market for oil.

For further reference of 'OPEC', please refer Power Booster Section.

4. Control on raw materials:

Monopoly also arises due to sole ownership or control of certain essential raw materials needed in a particular industry. For example, DeBeers Company of South Africa controls about 80 per cent of the world's production of diamonds. Although, the share is not 100 per cent, still it is large enough to exert substantial influence over the market.

Demand Curve under Monopoly:

A monopoly firm is like an industry as the single seller constitutes the entire market for the product, which has no close substitutes. So, a monopolist has full freedom and power to fix price for the product. However, demand of the product is not in the control of monopoly firm.

In order to increase the output to be sold, monopolist will have to reduce the price. Therefore, monopoly firm faces a downward sloping demand curve.

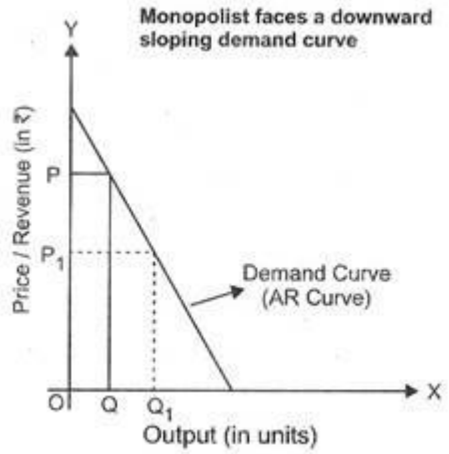


Fig. 10.3

In Fig. 10.3, output is measured along the X-axis and price and revenue along the Y-axis. At price OP, a seller can sell OQ quantity. Demand rises to OQ_1 if the price is reduced to OP_1. So, demand curve under monopoly is negatively sloped as more quantity can be sold only at a lower price.

It is often said that demand curve facing a monopoly firm is a constraint for the monopolist as he can sell more only by reducing the prices.

MR < AR under Monopoly:

A monopoly firm faces a downward sloping demand curve as more output can be sold only by reducing the price. As a result, revenue generated from every additional unit (known as MR) is less than price (AR) of the product. Due to this reason, MR is less than AR.

MULTINATIONAL CORPORATIONS

An MNC (Multinational Corporation) is one which undertakes FDI. It means the MNC owns or controls income generation assets in more than one country. It also does the production of goods or service outside its country of origin. The MNCs are multi-process, multi-national composite enterprises. The assets and sales of MNCs run into billions of dollars and they also make supernormal profits.

Till 1991, India was more or less a closed Economy. The rate of growth of the economy was limited. The contribution of the local industries to the country's GDP was limited that were the main cause of shortage of funds for various development projects initiated by the government. In an effort to revive the industries and to bring the country back on the right track, the government began to open various sectors such as Infrastructure, Automobile, Tourism, Information Technology, Food and Beverages, etc to the Multinational Corporations.

The MNCs slowly but reluctantly began to pour capital investment, technology and other valuable resources in the country causing a surge in GDP and upliftment of the economy as a whole. This was the post 1991 era where the government began to invite and welcome giant MNCs into the country.

The opportunities for developing economies are significant as well. Through the application of capital, technology, and a range of skills, multinational companies' overseas investments have created positive economic value in host countries, across different industries and within different policy regimes. The single biggest effect evidenced was the improvement in the standards of living of the country's population, as consumers have directly benefited from lower prices, higher quality goods, and broader selection. Improved productivity and output in the sector and its suppliers indirectly contributed to increasing national income. And despite often-cited worries, the impact on employment was either neutral or positive in two-thirds of the cases.

Investments by multinational companies (MNC) allow developing economies to share in the considerable benefits of the global economy. Official incentives, trade barriers, and other regulatory policies, though, can result in inefficiency and waste. Case studies reveal that in virtually all cases, MNC investment had a positive to very positive impact on the host country. Rather than leading to the exploitation of lower-wage workers, as some critics have charged, the investments fostered innovation, productivity, and an improved living standard. Therefore, government seeking those advantages would be advised to favor policies of openness, rather than regulation, when it comes to foreign direct investment.

In 2007, exports stood at US$145 billion and imports were around US$217 billion. Textiles, Jewellery, engineering goods and software are major export commodities while crude oil, machineries, fertilizers, and chemicals are major imports. India's most important trading partners are the United States, the European Union, and China. India is the world's most-populous democracy and has one of the fastest economic growth rates in the world (8.9 percent GDP increase in 2007, the second-fastest major economy in the world after China). Multinational companies are like double-edged sword. The sword can harm if not handled properly. Similarly the Multinational companies have their own pros and cons. The extent of technology and management of know-how transfer by the MNCs depend to a large extent on their corporate strategy; for example, firms desiring to have a longer-term relationship with the suppliers (rather than those simply using the host country as a marketing/export base) will be more inclined to effect transfer technology.

As pointed out in the World Investment Report, 2000, MNCs may restrict the access of particular affiliates to technology in order to minimize inter-affiliate competition. It is noted that MNCs are more likely to license older technologies from which they have already derived significant rents than newer technologies on which there are still relying for market leadership. Further, they may hold back the upgrading of the affiliate technology or invest insufficiently in host-country training and R&D in accordance with their global corporate strategies. Therefore, arguing that FDI inflows and economic liberalization automatically facilitates technology transfer is being extremely naïve.

Role of information technology in industrial development

The Importance of Technology in Economic and Social Development

Technological innovation and Information Communication Technologies (ICTs) represent a way for developing world nations to foster economic development, improve levels of education and training, as well as address gender issues within society. Entrepreneurship is crucial for economic development around the world. In countries such as Nigeria, Egypt and Indonesia, micro-entrepreneurs generate 38% of the gross domestic product. Analysis from the World Bank in 2011 indicates that small businesses create a disproportionate share of new jobs. They generate new ideas, new business models, and new ways of selling goods and services. Wireless technology and ICT infrastructure development is also vital for entrepreneurship and small business development. In many emerging nations, it is a major challenge to gain access to capital and market information. Developing nations specifically do not have functioning infrastructure or much in the way of financial resources.

In sub-Saharan Africa, for example, approximately 29% of roads are paved, barely a quarter of the population has access to electricity, and there are fewer than three landlines available per 100 people. In Indonesia, 75% of the country has household incomes below $2.50 per day. The combination of poor infrastructure and poverty makes it difficult for entrepreneurs to access financial resources and information. Below is an example of how a basic form of technology – such as a simple mobile phone – has been proved to assist people to communicate with one another, access market information, sell products across geographic areas, reach new consumers, enter mobile payment systems, reduce fraud and crime, and empower women and the disadvantaged. The Self-Employed Women's Association (Sewa) in India includes 1.1 million workers who pool their resources to improve their bargaining power. The organisation sends agricultural workers daily SMSs on commodity prices so farmers can determine the best places to sell their products. Those participating say they have been able to market fruits and vegetables over wider areas, and thereby earn higher incomes.

The Ethiopia Commodity Exchange Program (ECEP) has helped entrepreneurs expand their markets. Before 2008, 95% of farmers sold their products in local markets and were not able to access other areas. Transaction costs were high and they had problems getting fair prices due to the lack of market competition. With the advent of the ECEP, agricultural producers gained access to external buyers and were able to negotiate better prices. This boosted their incomes and improved the quality of food products. The India-based Hand in Hand Partnership (HIHP) enables women to use mobile devices to launch businesses in the technology area. It provides mentorship, training, credit, and technical support.

In Kenya, the Farmers Helpful Network (FHN) gives agricultural producers access to the latest research through their mobile phones. Farmers can ask questions of experts concerning crop rotation, artificial insemination, and crop insurance. This helps them improve their agricultural production and marketing, and increase their overall income. Access to mobile technology is particularly important for females because there are 300 million fewer women globally than men who own mobile devices. Overall, there is a 21% gender gap in owning a phone worldwide, but this number rises to 23% in Africa, 24% in the Middle East, and 37% in Asia. Wireless communications also plays an important role in education and training. In Indonesia, the Global Ready eTraining Center program has trained over 1000 students in technology services. Those enrolled get vouchers for a three-month program. More than 95% of the individuals enrolled completed the class, and 75% said the course increased their income as a result of the skills acquired in the program.

A survey undertaken by the United Nations Development Programme (UNDP) found that 55% of women around the world earned additional income due to owning a mobile phone, and 41% increased their income and professional opportunities. Mobile payment systems represent a way to reduce the cost of financial transactions and thereby help entrepreneurs. If people can transfer funds quickly and efficiently, it becomes easier for small and medium-sized businesses to sell their products. This improves the efficiency of the marketplace and removes barriers to growth. Reducing “friction” is very important in African, Asian, and Latin American financial markets because barriers to financial transactions remain quite high. Only 30% of those who live in developing African nations have bank accounts.

In short, mobile technology offers extensive help on various forms of social and economic development. Wireless communications broaden access to information, improve capital access, overcome geographic limitations, and expand market access. With mobile phones and tablets proliferating at a significant rate, these communications tools enable women, in this case the disadvantaged, and other individuals to access a broader range of investors, suppliers, and customers. Combined with social media platforms, people can extend their reach through mobile devices and pool resources in meaningful ways.

Exercise Questions

1. What do you Industrial policy?
2. What is a Problems of the Industry?
3. Which are relative role of public sector and private sector in the indian economy?
4. Explain the private and public sector?
5. Explain the Monopoly in India**.**
6. Explain the role of information technology in industrial development.

UNIT IV

External Sector

Direction of foreign trade means the countries to which India exports its goods and the countries from which it imports. Thus direction consists of destination of exports and sources of our imports. Prior to our Independence when India was under British rule, much of our trade was done with Britain.

DEFINITION

Foreign trade is nothing but trade between the different countries of the world. It is also called as International trade, External trade or Inter-Regional trade. It consists of imports, exports and entrepot. The inflow of goods in a country is called import trade whereas outflow of goods from a country is called export trade. Many times goods are imported for the purpose of re-export after some processing operations. This is called entrepot trade. Foreign trade basically takes place for mutual satisfaction of wants and utilities of resources.

According to Wasserman and Haltman, “International trade consists of transaction between residents of different countries”. **According to Anatol Marad,** “International trade is a trade between nations”.

According to Eugeworth, “International trade means trade between nations”.

Types of Foreign Trade:

Foreign Trade can be divided into following three groups :-

Import Trade : Import trade refers to purchase of goods by one country from another country or inflow of goods and services from foreign country to home country.

Export Trade : Export trade refers to the sale of goods by one country to another country or outflow of goods from home country to foreign country.

Entrepot Trade : Entrepot trade is also known as Re-export. It refers to purchase of goods from one country and then selling them to another country after some processing operations.

Main Features of Volume, Composition and Direction of India’s Foreign Trade

1) Increasing Share of Gross National Income:

India’s foreign trade plays an important role in the Gross National Income. In 1990-91, share of India’s foreign trade (import export) in net national income was 17 per cent which in 2006-07 rose to 25 per cent. In 2006-07 exports and imports as percentage of GDP were 14.0 per cent and 21 per cent respectively.

2) Less Percentage of World Trade:

Share of India's foreign trade in world trade has been declining. In 1950-51, India's share in total import trade of the world was 1.8 per cent and in export trade it was 2 per cent. According to World Trade Statistics, India's share in world trade has gone-up from 1.4 per cent in 2004 to 1.5 per cent in 2006 and estimated to be 2 per cent in 2009.

3) Oceanic Trade:

Most of India's trade is by sea, India has very little trade relations with its neighing countries like Nepal, Afghanistan, Myanmar, Sri Lanka, etc. Thus, 68 per cent of India's trade is oceanic trade: Share of these neighing countries in our export trade was 21.8 per cent and in import trade 19.1 per cent.

4) Dependence on a Few Ports:

For its foreign trade, India depends mostly on Mumbai, Kolkata, and Chennai ports. These ports are therefore, over-crowded. Recently, India has developed Kandla, Cochin, and Visakhapatnam ports to lessen the burden on former ports.

5) Increase in Volume and Value of Trade:

Since 1990-91, volume and value of India's foreign trade has gone up. India now exports and imports goods which are several times more in value and volume. In 1990-91, total value of India's foreign trade was Rs 75,751 and in 2008-09, it rose to Rs 22, 15,191 crore. Of it, value of exports was Rs 8, 40,755 crore and that of imports was Rs 13, 74,436 crore.

6) Change in the Composition of Exports:

Since independence, composition of export trade of India has undergone a change. Prior to independence, India used to export agricultural products and raw materials, like jute, cotton, tea, oil seeds, leather, food grains, cashew nuts, and mineral products. It also exported manufactured goods. But now in its export kitty are included mostly manufactured items like, machines, ready-made garments, gems and jewellery, tea, jute manufactures, Cashew Kernels, electronic goods, especially hardware's and software's which occupy prime place in exports.

7) Change in the Composition of Imports:

Since Independence, composition of India's import trade has also witnessed a sea change. Prior to Independence, India used to import mostly consumption goods like medicines, cloth, motor vehicles, electrical goods, iron, steel, etc. Now it has been importing mostly petrol and petroleum products, machines, chemicals-, fertilizers, oil seeds, raw materials, steel, edible oils, etc.

8) Direction of Foreign Trade:

It refers to the countries with whom a country trades. Main changes in the direction of foreign trade are as under:

In the year 1990, in exports the maximum share, i.e., 17.9 per cent was that of Eastern Europe, i.e., Romania, East Germany, and U.S.S.R., etc. In import trade, maximum share, i.e., 16.5 per cent was that of OPEC, i.e., Iran, Iraq, Saudi Arabia, Kuwait, etc. In 2008-09, the largest share in India’s foreign trade (both imports and exports) was that of European Union (EU), i.e., Germany, Belgium, France, U.K., etc., and developing countries. Now, U.A.E., China and U.S.A. have occupied important place in India’s foreign trade. The importance of England, Russia, etc., has declined.

9) Mounting Deficit in Balance of Trade:

Since 1950-51, India’s balance of trade has been continuously adverse except for two years, viz., 1972-73 and 1976-77, besides it has been mounting year after year. In 1950-51 balance of trade was adverse to the tune of Rs 2 crore and by 1990-1991 it rose to Rs 16,933 crore. After the policy of liberalization, the country has witnessed a rapid increase in it. In 1999- 2000 it rose to Rs 77,359crorc and in 2008-09 it amounted to 5, 33,680 crore. Fast rise in the value of imports and slow rise in the value of exports accounted for this tremendous rise in balance of trade deficit.

10) Trend towards Globalization:

Globalization and diversification mark the latest trend of India’s foreign trade. India’s foreign trade is no longer confined or a few goods or a few countries. Presently, India exports 7,500 items to about 190 countries and in its import- kitty there are 6,000 items from 140 countries. It unveiled the changing pattern of India’s foreign trade.

11) Changing Role of Public Sector:

Since 1991 the role of public sector in India’s foreign trade has undergone a change. Prior to it, State Trading Corporation (STC), Minerals and Metals Trading Corporation (MMTC), Handicraft and Handloom Corporation, Steel Authority of India Ltd. (SAIL), Hindustan Machine Tools (HMT), Bharat Heavy Electrical Limited (BHEL), etc., used to play significant role in India’s foreign trade. As a result of implementation of the policy of liberalization, the importance of all these public sector enterprises has diminished.

Introduction of foreign trade:

There is no country in the world today which produces all the commodities it needs. Every country, therefore, tries to produce those commodities in which it has comparative advantage. It exchanges part of those commodities with the commodities produced by other countries relatively more efficiently. The relative difference in factor endowments, technology, tastes etc, among the nations of the world have greatly widened the basis of international trade.

Role of foreign trade in economic development

The role of foreign trade can be judged by the following faces:

- **Foreign trade and economic development.**

  Foreign trade plays very important role in the economic development of any country. Pakistan also exports a lot of agricultural product to other countries and imports the capital goods from other countries. Therefore, it is not wrong to say that economic development of a country depends of foreign trade.

- **Foreign exchange earning**

  Foreign trade provides foreign exchange which can be used to remove the poverty and other productive purposes.

- **Market expansion**

  The demand factor plays very important role in increasing the production of any country. The foreign trade expands the market and encourages the producers. In Pakistan home market is very limited due to poverty. So it is necessary chat we should sell our product in other countries.

- **Increase in investment**

  Foreign trade encourages the investor to increase the investment to produce more goods. So the rate of investment increases.

- **Foreign investment**

  Besides the local investment, foreign trade provides incentives for the foreign investors to invest in those countries where there is a shortage of investment.

- **Increase in national income**

  Foreign trade increases the scale of production and national income of the country. To meet the foreign demand we increase the production on large scale so GNP also increases.

- **Decrease in unemployment**

  With the rise in the demand of goods domestic resources are fully utilized and it increases the rate of development in the country and reduces the unemployment in the world.

- **Price stability**

  Foreign trade helps to bring stability in price level. All those goods which are short and prices are increasing can be imported and those goods which are surplus can be exported. There by stopping fluctuation in prices.

- **Specialization**

  There is a difference in the quality and quantity of various factors of production in different countries. Each country adopts the specialization in the production of those commodities, in which it has comparative advantage. So all trading countries enjoy profit through international trade.

- **Remove monopolies**

  Foreign trade also discourages the monopolies. Where every any monopolist increases the prices, government allows the import of goods to reduce the prices in the country.

- **Removal of food shortage**

  India is also facing the food shortage problem. To remove the food shortage India has imported the wheat many times. So due to foreign trade we are solving this problem for many years.

- **Agricultural development**

  Agricultural development is the back bone in our economy. Foreign trade has played very important role for the development of our agriculture sector. Every year we export rice, cotton, fruits and vegetables to other countries. The export of goods makes our farmer more prosperous. It inspires the spirit of development in them.

- **Import of consumer goods**

  India and Pakistan imports the various consumer goods from other countries, which are not produced inside the country. Today the shortage of any commodity can be removed through international trade.

- **To improve quality of local products**

  Foreign trade helps to improve quality of local products and extends market through changes in demand and supply as foreign trade can create competition with the rest of the world.

- **External economics**

  External economics can also be achieved through foreign trade. The industries producing foods on large scale in Pakistan and India are enjoying the external economics due to international trade.

- **Competition with foreign producers**

  We can compete with the foreign producers in foreign trade so it improves the quality and reduces the cost of production. It is also an advantage of foreign trade.

- **Useful for the world peace**

  Today all the countries are tied in trade relations with each other. So foreign trade also contribute to peace and prosperity in the world.

- **Import of capital goods and technology**
- The inflow of capital goods and technology in the less developed countries has increased the rate of economic development, and this is due to foreign trade.
- **Import substitution**

  These countries not only produce import substitute, but also reduce deficit in balance of payment of their countries.

- **Better understanding**

  Foreign trade provides an opportunity to the people of different countries to meet, discuss, and exchange views and ideas related to their social, economic and political problems.

- **Dissemination of knowledge**

  Foreign trade is also responsible for dissemination of knowledge and learning from developed countries to under developed countries.

- **Interdependence**

  Foreign trade is responsible for creating economic depending and establishing economic interest in the economy of the countries having trade relations.

- **Factors productivity**

  Through foreign trade the productivity of labour and capital and organization increases. Demand make them mobile on national as well as international level which helps underdeveloped countries to develop and maintain a high level of growth of developed countries.

Balance of Trade (BOT) and Balance of Payment (BOP)

After the implementation of globalization policy, world has become a small village and now every country freely transacts with the other countries of the world. In this context, two statements are prepared to keep a record of the transactions made by the country internationally; they are Balance of Trade (BOT) and Balance of Payments (BOP). The **balance of payment** keeps a track of transaction in goods, services, and assets between the country's residents, with the rest of the world. On the other hand, the balance of exports and import of the product and services is termed as **Balance of Trade**.

The scope of BOP is greater than BOT, or you can also say that Balance of Trade is a major section of Balance of Payment. Let's understand the difference between Balance of Trade and Balance of Payment in the article given below.

Content: Balance of Trade Vs Balance of Payments

Comparison Chart

BASIS FOR COMPARISON	BALANCE OF TRADE	BALANCE OF PAYMENT
Meaning	Balance of Trade is a statement that captures the country's export and import of goods with the remaining world.	Balance of Payment is a statement that keeps track of all economic transactions done by the country with the remaining world.
Records	Transactions related to goods only.	Transactions related to both goods and services are recorded.
Capital Transfers	Are not included in the Balance of Trade.	Are included in Balance of Payment.
Which is better?	It gives a partial view of the country's economic status.	It gives a clear view of the economic position of the country.
Result	It can be Favorable, Unfavorable or balanced.	Both the receipts and payment sides tallies.
Component	It is a component of Current Account of Balance of Payment.	Current Account and Capital Account.

Definition of Balance of Trade

Trade refers to buying and selling of goods, but when it comes to buying and selling of goods globally, then it is known as import and export. The Balance of Trade is the balance of the imports and exports of commodities made to/by a country during a particular year. It is the most important part of the current account of the country's Balance of Payment. It keeps records of tangible items only.

The Balance of Trade shows the variability in the imports and exports of merchandise made by a country with the rest of the world over a period. If the imports and exports made to/by the country tallies, then this situation is known as Trade Equilibrium, but if imports exceed exports, then the condition is unfavourable as it states that the economic status of the country is not good, and so this situation is termed as Trade Deficit. Now, if the value of exports is greater than the value of imports, this is a favourable situation because it indicates the good economic position of the country, thus known as trade surplus.

Definition of Balance of Payments

The Balance of Payments is a set of accounts that recognises all the commercial transactions performed by the country in a particular period with the remaining countries of the world. It keeps the record of all the monetary transactions done globally by the country on commodities, services and income during the year. It combines all the public-private investments to know the inflow and outflow of money in the economy over a period. If the BOP is equal to zero, then it means that both the debits and credits are equal, but if the debit is more than credit, then it is a sign of deficit while if the credit exceeds debit, then it shows a surplus. The Balance of Payment has been divided into the following sets of accounts:

- **Current Account**: The account that keeps the record of both tangible and intangible items. Tangible items include goods while the intangible items are services and income.
- **Capital Account**: The account keeps a record of all the capital expenditure made and income generated collectively by the public and private sector. Foreign Direct Investment, External Commercial Borrowing, Government loan to Foreign Government, etc. are included in Capital Account.
- **Errors and Omissions**: If in case the receipts and payments do not match with each other then balance amount will be shown as errors and omissions.

Balance of Trade and Balance of Payments

The following are the major differences between the balance of trade and balance of payments:

1. A statement recording the imports and exports done in goods by/from the country with the other countries, during a particular period is known as the Balance of Trade. The Balance of Payment captures all the monetary transaction performed internationally by the country during a course of time.

2. The Balance of Brade accounts for, only physical items, whereas Balance of Payment keeps track of physical as well as non-physical items.
3. The Balance of Payments records capital receipts or payments, but Balance of Trade does not include it.
4. The Balance of Trade can show a surplus, deficit or it can be balanced too. On the other hand, Balance of Payments is always balanced.
5. The Balance of Trade is a major segment of Balance of Payment.
6. The Balance of Trade provides the only half picture of the country's economic position. Conversely, Balance of Payment gives a complete view of the country's economic position.

Conclusion

Every country of the world keeps the record of inflow and outflow of money in the economy with the help of a Balance of Trade and Balance of Payments. They reflect the actual position of the whole economy. With the help of BOT and BOP, analysis and comparisons can also be made that how much trade has increased or decreased, since the last period.

TRENDS AND COMPOSITION OF INDIA'S IMPORTS

After independence, composition of India's import trade has undergone many changes. By 1975, imports of food grains, cotton, jute etc. increased very much. Imports of petroleum, chemicals fertilizers, steel, iron, non-ferrous metals, industrial raw materials machinery, capital goods, edible oils, un-cut precious stone etc. have increased.

Pattern of Imports

On the basis of the volume of imports, it has been divided into bulk imports and nonbulk imports. The bulk imports comprises Petroleum, crude and its products, bulk consumption goods like cereals and pulses, edible oils and sugar and other bulk items like fertilizers, non-ferrous metals, metallic ores, iron and steel, paper, rubber, pulp etc. The nonbulk imports comprises capital goods, export related items like pearls, precious metals, chemicals textile, coal , artificial resins, plastic materials, non metallic mineral etc.

Changes in composition of Imports

After independence, composition of India's import trade has undergone many changes. By 1975, imports of foodgrains, cotton, jute etc. increased very much. Imports of pertroleum, chemical fertilizer, steel, iron, non-ferrous metals, industrial raw materials, machinery, capital goods, edible oils, un-cut precious stones etc., have increased. The important changes in the composition of imports can be listed as follows.

1. The imports of agricultural products fell considerably. Agricultural products include foodgrains, edible oils, raw cotton, jute etc. In 1970-71, the share of agricultural products in the total imports was 14.6 % which came down to 2.1% in 2008-09.
2. However, there has been a substantial rise in import expenditure on petroleum products from Rs. 163 crore in 1970-71 to Rs.419946 crore in 2008-09. The reasons for this increasing trend were firstly the increase in the prices of crude oil and secondly increase in the demand of petroleum products for the expanding industrial and transport sectors.
3. Increase in imports of capital goods consequent upon the programme of industrialization initiated during the planning period import of machines, metals, electrical equipments, transport equipments etc. increased considerably. The expenditure on imports of capital goods were increased to 216511cr. in 2008-09 from 404cr.in 1970-71. However, in percentage terms, the share of capital goods in total imports declined. In 1970-71, its share was 25% which declined to 15.75% in 2008-09.
4. There has been substantial increase in the expenditure on imports of raw materials and intermediate goods. In 1970-71, the percentage of expenditure on imports of raw materials and intermediate goods was 54% of the total expenditure on imports. It increase to about 82.15% in 2008-09.
5. The imports of chemical fertilizers have also increased during the same period from 86 crore to 59569 crore.

TRENDS AND DIRECTION OF INDIA'S EXPORTS

Since independence it is the percentage share of exports of agricultural products in total exports has been declining e.g., in 1970-71 the agricultural products contributed 31% of total export earnings. It declined to 9.2% in 2008-09. The main reason of this decline is the increase in domestic demand of agricultural products due to increase in population. Hence the availability of agricultural products for export has considerably declined. The major changes in the sectoral composition of India's export basket seen in the last decade have accelerated in the beginning of this decade. While the share of petroleum crude and product increased by 11.8 % during the 10 year period from 2000-01 to 2009-10. The share of other two sectors, i.e., manufactures and primary products fell almost proportionately over the same period. The biggest gainer is the engineering goods sector with its share increasing from 15.7% in 2000-01 to 22.2% in the first half of 2011-12.

Export growth was high in 2010-11 and the first half of 2011-12 in case of agriculture and allied products due to export growth in cereals, meat, oil meals and coffee. Among manufactured exports, engineering goods, gems and jewellery, and chemicals and related products registered high growth, while textiles export growth was moderate. Ores and minerals is the only item with negative growth in the first half of 2011-12 due to a ban on export of iron ore by the state governments of Karnataka and Odisha. Since 2007-08, electronic goods have displaced leather and manufactures from fifth place with the share of the former increasing and the later decreasing. There has been a gradual shift in India's manufactures exports from labor intensive like textiles, leather and manufactures handicraft to capital and skill intensive sectors. Engineering goods exports has seen an almost steady rise in shares from 1999-2000 to the first half of 2011-2012.

Changes in the composition

The important changes in the composition of exports can be listed as follows.

1. A decline in percentage share from 41 in 1970-71 to 13.3 in 2008-09 of conventional items like jute, tea food grains etc. in total exports.
2. Increase in percentage share of Manufactured goods in total exports. In 1970-71, the share of manufactured goods in export earnings was 56%, by 2008-09 it increased to 66.4%.
3. Export of Gems, Engineering goods and Ready-made garments has emerged as an important foreign exchange earner in recent years.
4. The composition of the export of agricultural products has undergone considerable changes. In 1970-71, the export of rice was negligible. But in 2008-09 rice worth Rs. 11164 crore was exported.
5. Due to enhance refining capacity, India has also been exporting petroleum products. In 1970-71, petroleum products worth Rs.13crore were exported. In 2008-09 these have increased to Rs. 127324 crore.
6. The continuous programmes of industrialization initiated during planning period, export of engineering good rose substantially.
7. India is exporting software, consultancy services and other information technology related services. Export of services are rising over 25% per annum during the last 10 years.

EXPORT-IMPORT (EXIM) POLICY IN INDIA

Foreign trade has played a crucial role in India's economic growth. The composition and direction of India's foreign trade has undergone substantial changes, particularly, after the liberalization process which began in the early 1990s. Our major exports now includes manufacturing goods such as Engineering goods, Petroleum products Chemicals and related products, Gems and Jewellery Textiles etc. which constitute over 80 per cent of our export basket. On the other side, major import items constitute capital goods and intermediates which not only support the manufacturing sector but also supply raw materials for the export oriented units.

Trade Policy in India during the post independence period

During the first five years after independence, the country had to led wartime controls. Since our Balance of payment with the dollar area was heavily adverse and an effort was made to screen imports from hard currency areas and boost up exports to this area so as to bridge the gap. This also necessitated India to devalue her currency in 1949. Consequently, the import policy continued to be restrictive during this period. Since then, liberalization of foreign trade was adopted as the goal of the trade policy. Import license were granted liberally. The export policy were also encouraged by relaxing export controls, reducing export duties, abolishing export quotas and providing incentives to exports. This liberalized policy led to a huge increase in our imports but export did not rise appreciably which might have led to fast deterioration in India's foreign exchange reserve then.

After assuming the need for reversal of trade policy a re-orientation was made to meet the requirements of planned economic development. A very restrictive import policy was adopted and a vigorous export promotion drive was launched. The trade policy assumed that a lasting solution to the balance of payments problem lies in the promotion and diversification of our export trade. Similarly, import substitution industries should also be encouraged so that dependence on foreign countries is lessened. It was this period that India's trade policy was thoroughly reviewed by the Mudaliar Committee in 1962. The committee felt that developmental and maintenance imports were both essential for a growing economy like India. Therefore the recommendation of the committee led to an import policy of restriction of non-essential goods on the one side and liberalization of imports of essential good on the other was successful to a large extent. So that the imports were controlled and exports were pushed up. This policy helped to reverse the persistent trade deficit.

Trade policy in India since 1991was mainly aimed to cut down administrative controls and barriers which acted as obstacles to the free flow of export and imports. Therefore, the Government of India decided that while all essential imports like POL, fertilizer and edible oil should be protected; all other imports should be linked to exports by enlarging and liberalizing the replenishment license system. With a view to increase India's share in the international trade, Government of India has been making consistent efforts through various policy initiates an reform measures. Accordingly, foreign trade policy underwent a comprehensive change since 1991. Tariff restrictions have been considerably moderated and presently it is the competition that prevails and not the quotas and tariffs. Efficiency is the benchmark of growth, not merely expansion. Trade policy after 1991 is to facilitate integration of the Indian markets with the rest of the world with a view to enhancing economic growth through global competition and non-competitive controls and protection.

New Foreign Trade Policy(2009-14)

The Union Commerce Ministry, Government of India announces the integrated Foreign Trade Policy (FTP) every year five years. This is also called EXIM policy. This policy is updated every year with some modifications and new schemes. New schemes come into effect on the first day of financial year ie. April 1,every year. The foreign Trade Policy which was announced on August 28, 2009 is integrated policy for the period 2009-14. The policy aims at developing export potential, improving export performance, boosting foreign trade and earning valuable foreign exchange. FTP assumes great significance this year as India's exports have been battered by the global recession.

The major objectives of Foreign Trade Policy 2009-14 are the following

1. To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two years.
2. To double India's export of goods and services by 2014.
3. To double India's share in global merchandise trade by 2020 as a long term aim of this policy. India's share in Global merchandise exports was 1.45% in 2008.
4. Simplification of the application procedure for availing various benefits.
5. To set in motion the strategies and policy measures which catalyse the growth of exports.
6. To encourage exports through a "mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export markets.

Special Economic Zones (SEZ)

Another major policy issue in the trade sector which created a lot of heat was that of Special Economic Zones. SEZ are growth engines that can boost manufacturing, augment export and generate employment. The Act of SEZ-2005 supported by SEZ rules, came into effect on February 2006. The main objectives of the SEZ Act are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities.

The SEZ require special fiscal and regulatory regime in order to impart a hassle free operational regime encompassing the state of the art infrastructure and support services. The policy is to provide an internationally competitive and hassle free environment for exports and are expected to give a further boost to the country's export. The SEZ rules also provide for simplified procedures for development, operation and maintenance of the SEZ and setting up units in SEZs, single window clearance both relating to Central as well as State governments for setting up of an SEZ and units in a SEZ. Various incentives and facilities are offered to both-units in SEZs for attracting investments into SEZ and for SEZ developer. These incentive and facilities are expected to trigger a large flow of foreign and domestic investment in SEZs, particularly in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has in a lot of ways enabled India to achieve a certain degree of financial stability, growth and development.

Definition: - FDI is an investment that a parent company makes in a foreign country. FDI not only brings in capital but also helps in good governance practices and better management skills and even technology transfer. The FDI flows into the primary market and only targets a specific enterprise. It also aims to increase the enterprises capacity or productivity or change its management control

Impact on India

Liberalizing FDI was another important part of India's reform, driven by the belief that this would increase the total volume of investment in the economy, improve production technology, and increase access to world market. These reforms have created a very different competitive environment for India's industry than existed in 1991. Indian companies have upgraded their technology and expanded to more efficient scales of production. They have also restructured through mergers and acquisition and refocused their activities toconcentrate on areas of competence.

India has continually sought to attract FDI from the world's major investors. In 1998 and 1999, Government of India announced a number of reforms designed to encourage and promote a favorable business environment for investors. FDIs are permitted through financial collaborations, through private equity, by way of capital markets through euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear railway, coal and mining industries.

A number of projects have been implemented in areas such as electricity generation, distribution and transmission, as well as the development of roads and highways, with opportunities for foreign investors. The Government of India also granted permission for FDIs to provide up to 100% of the financing required for the construction of bridges and tunnels. Presently, FDI is allowed in financial services, including the growing credit card business. These also include the non-banking financial service sector. Foreign investors can buy up to 40% of the equity in private banks, also there is condition that these banks must be multilateral financial organization. In 2007, India received $34 billion in FDI, a huge growth compared to the previous years, but significantly less than the $134 billion that flowed into China.

FOREIGN INSTITUTIONAL INVESTORS

The introduction of foreign investment in Indian equity has not added significantly to market liquidity or volatility of stock prices. However, the presence of FIIs in Indian markets has contributed to the expansion of wholesale capital market and the evolution of the institutions and financial structure in the country. This has given an extra momentum to improve market efficiency and transparency.

Definition: - Foreign Institutional Investment is an investment made by an investor in the markets of a foreign nation. In FII the companies only need to get registered in the stock exchange to make investment. The FII is also known as hot money as the investors have the liberty to sell it and take it back. These investment flows only into the secondary market. It helps in increasing capital availability in general rather than enhancing the capital of a specific enterprise.

Impact on India

Portfolio investors may become the ultimate arbiters of national macro economic policy to the determinant of economically vulnerable groups. Under floating exchange rate, a withdrawal of portfolio investment may trigger a nominal and real depreciation of the domestic currency.

Securities and Exchange Board of India (SEBI) is the nodal agency for dealing with FIIs.

FIIs include asset management companies, pension funds, mutual funds, investment trusts as nominee companies, institutional portfolio managers, university funds, endowment foundations, charitable trust and charitable societies. FII investment is frequently referred to as hot money for the reason that it can leave the country at the same speed at which it comes in. In India statutory agencies like SEBI have prescribed norms to register FIIs and also to regulate such investments flowing in through FIIs. FEMA norms include maintenance of highly rated bonds with security exchange.

EXTERNAL BORROWING AND BALANCE OF PAYMENT PROBLEM IN INDIA

India's external debt has increased over time and India is one of the highly indebted countries of the world in terms of total debt outstanding. External debt increased from US $83.8 billion in 1990-91 to US $326.6 billion at end September 2011. The increase in the external debt was primarily on account of higher commercial borrowing and short term debt which together contributed over 80% of the increase in the country's external borrowing. The maturity profile of the India's external debt indicates the dominance of long term borrowings. The long term external debt at US $ 255.1 billion at end of September 2011, accounted from 78.1% of total external debt, while the remaining 21.9% was short term debt. However, India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 17.8% and debt to service ratio of 4.2% in 2010-11.

Trends in Balance of Payment

India had faced pressure on balance of payment since planning period due to either internal or external factors. The whole period of planning is more than six decades, can be divided into four sub-periods depending on the nature of BoP problems, overall economic environment and external aid situation.

Period I (1956-57 to 1975-76)

This period comprising the second, third and fourth plans and first two years of fifth plan saw heavy deficit in balance of payments and extremely tight payment position. This period witnessed three wars, several droughts and the first oil shock in 1973, though the government resorted to serve import controls and foreign exchange regulation etc.

Period II (1976-77 to 1979-80)

This was relatively short period and was a golden period as far as BoP is concerned. In this period, India had a small current account surplus of 0.6% of the GDP, and also possessed foreign exchange reserves equivalent to about seven months imports. The country had got relatively comfortable position on the BoP front due to the rapid increase in private remittance from oil exporting countries and there was a strong growth in export too. The elimination of large price gap between domestic and foreign markets of gold was also helped to strengthen the BoP in India. Aid receipts were reasonably buoyant and India drew on various IMF facilities during this period.

Period III (1980-81 to 1990-91)

This period broadly corresponds to the period of sixth and seventh plans and was marked by severe BoP difficulties. Widening trade deficit, gradual decline in net receipts from invisibles, the reductions in flows of concessional assistance from World Bank and the third oil shock during 1990-91 were the chief reasons for the problems in BoP in India during third period.

Period IV (1991-92 onwards)

In 1991, India found itself in its worst balance of payments crisis since independence. The inflow of foreign borrowing had increased at a rapid rate during the late eighties. This was due to the excess domestic expenditure over income-the fiscal deficit of Centre and the States soared to over 11 per cent in 1991. During this period total public debt as the proportion of GNP doubled reaching the level of 60 per cent and foreign currency reserves were depleted rapidly.

The reforms of 1990s have facilitated India to move away from closed economy framework towards a more open and liberal economy. Due to the liberalized foreign trade deregulated industrialization and the thrust on globalization had made the country's balance of payment become stronger. The foreign exchange reserves were built to very comfortable positions and the problem of BoP has come under control.

Reasons for Deficits in India's Balance of Payments

The important reasons for deficit in India's BoP position can be listed as follows.

1. Rise in imports :- The reasons for rapid rise in imports are building industrial base, increase in export related imports (gems, jewellery, capital goods) increase in imports of industrial raw materials, rise in the price and imports of POL (petroleum, oil and lubricants)products etc.

2. Devaluation and depreciation of the rupee: - The devaluation and depreciation of the rupee have led to an increase in the price of imports. Exports have become cheaper, the low price and income elasticity of demand for exports have resulted in slow increase in exports.

3. Slow rise in export earnings: - Export earnings rose, however, they were not sufficient to meet the rising imports. Thus, rise in exports has neither been substantial nor continuous. Therefore, the growth in export has not been enough to finance the rising imports.

4. Debt-Service: - The balance of payment problem has also aggravated due to the rising obligation of amortization payments in 2008-09, debt-service ratio was 4.4% with the ever increasing imports and slow pace of exports, the most effective solution for India's balance of payments problem is cost reduction and competitiveness in global market.

Composition of Trade and Direction of Trade

Composition of trade means a study of the goods and services of imports and exports of a country. In other words, it tells about the commodities of imports and the commodities of exports of a country. Therefore it indicates the structure and level of economic development of a country. Developing countries export raw materials, agricultural products and intermediate goods; developed countries export finished goods, machines, equipments and technique. Direction of trade means a study of the countries to whom the exports are made and from whom the imports are made.

Composition of Imports of India

Imports of India may be divided into three parts namely capital goods, raw materials and consumer goods.

Imports of capital goods

Capital goods include metals, machines and equipments, appliances and transport equipments, and means of communications. These goods are essential for industrial development of the country. Imports of these goods amounted to Rs.356 crore in 1960-61 which increased to Rs.26, 532 crore in 1997-98.

Imports of raw materials and intermediate goods

It includes the imports of cotton, jute, fertilizer, chemicals, crude oil etc. A number of raw materials and intermediate goods have to be imported during the process of economic development. If amounted to Rs.527 crore in 1960-61 which increased to Rs.13, 966 crore in 1985-86. Petroleum products include crude oil, petrol and lubricating oil. Imports of these products have ever been increasing. In 1960-61, imports of these products amounted to Rs.69 crore which increased to Rs.30, 538 crore in 1997-98. Import of petroleum products constitutes about 23 percent of our total imports. Fertilizers are an important input for agriculture. Chemical products are an important input for industrial development. The import of these products is continuously increasing in India. In 1960-61 import of these items amounted to Rs.88 crore only which increased to Rs.3755 crore in 1997-98.

Imports of consumer goods

It includes the import of food grains, electrical goods, medicines, paper etc., India faced an acute shortage of food grains till the end of Third Five Year Plan. As a result, India had to import food grains in large quantities. Import of food grains in 1960-61 was 3748 thousand tonnes (Rs.181 crore). In 1997-98 it was 1399 thousand tones. Now India has achieved self-reliance in food production.

Direction or sources of imports of India

Sources of imports of India have undergone several important changes during the planning period. Some important facts are as follows:

At the beginning of economic planning, we were importing from selected countries only. Now the picture has changed. We import different goods and services from different countries of the world. At present we get our imports from almost all the countries of the world. For the purchase of machines and equipments, we depend mainly on OECD (Organization for Economic Cooperation and Development) countries and East European countries. For the supply of food grains and petroleum products, we depend on OPEC (Oil Producing and Exporting Countries) countries. The OECD countries supply largest part of our imports. In 1997-98 out of the total imports of Rs.1,51,553 crore, the imports of Rs.75,593 crore were made (49.9%) from these countries. Other important suppliers of our imports are USA, Belgium, Germany, Japan and Britain.

Composition of exports of India

Exports of India may be divided into two parts I) Exports of traditional items and ii) Exports of non-traditional items.

Exports of traditional items

It includes the exports of tea, coffee, jute, jute products, iron ore, species, animal skin, cotton, fish, fish products, mineral products etc. At the beginning of the planning era, their items contributed about 80 percent of out total exports. Gradually, the contribution of these items is declining and that of non-traditional items is increasing. At present the contribution of traditional items is about 18.8% in our total exports.

Non-traditional items

It includes the export of sugar, engineering goods, chemicals, iron and steel electrical goods, leather products, gems and jewellery. There is a significant change in the pattern of exports of India during recent years. India has started to export a number of non-traditional items to a number of countries of the world. Contribution of these items is gradually increasing in total exports of India and shows a declining trend during some years also. Some facts to illustrate the changes are given below:

Agriculture and allied products which constituted 20.4 percent of total exports in 1996-97, decreased to 18.8 percent in 1999-2000. ii) Ores and minerals which constituted 3.5 percent of total exports in 1996-97, decreased to 3 percent in 1999-2000. iii) Manufactured good which contributed 73.4 percent of total exports in 1996-97, increased to 75.7 percent in 1999-2000. iv) Crude and petroleum products constituted 1.4 percent of total exports in 1996-97 but decreased to 1.0 percent in 1999-2000. v) With regard to other items of exports which constituted 1.2 percent in 1996-97 increased to 1.3 percent in 1999-2000.

Direction of exports of India

During the planning era, several important charges have taken place in the destination of exports of India. At present, we deal with about 180 countries including many developed countries. Our major exports are directed towards the following countries:

OECD countries (Belgium, France Germany, U.K. North America, Canada, USA, Australia and Japan). Our exports which constituted percent of the total exports in 1990-91 increased to 55.7 percent in 1999-2000.

OPEC countries (Iran, Iraq, Kuwait, Saudi Arabia etc.). Our exports which constituted 5.6 percent of the total exports in 1990-91 increased to 10.0 percent in 1999-2000. Eastern Europe (GDR, Romania, Russia etc.). Our exports which constituted 17.9 percent in 1990-91 decreased to 3.1 percent in 1999-2000. Other LDCs (Africa, Asia, Latin America). Our exports constitute 16.8 per cent in 1990-91, increased to 28.2 percent in 1999-2000.

To sum up, during the last five decades, significant changes have been observed in the volume, composition and direction of Indias trade. Most of these changes have been in consonance with the development needs of the economy.

Role of Multinational Corporations (MNCs) in Foreign Investments

Multinational corporations are those large firms which are incorporated in one country but which own, control or manage production and distribution facilities in several countries. Therefore, these multinational corporations are also known as transnational corporations. They transact business in a large number of countries and often operate in diversified business activities. The movements of private foreign capital take place through the medium of these multinational corporations. Thus multinational corporations are important source of foreign direct investment (FDI). Besides, it is through multinational corporations that modern high technology is transferred to the developing countries. The important question about multinational corporations is why they exist. The multinational corporations exist because they are highly efficient. Their efficiencies in production and distribution of goods and services arise from internalising certain activities rather than contracting them out to other forms.

Managing a firm involves which production and distribution activities it will perform itself and which activities it will contract out to other firms and individuals. In addition to this basic issue, a big firm may decide to set up and operate business units in other countries to benefit from advantages of location. For examples, it has been found that giant American and European firms set up production units to explore and refine oil in Middle East Countries because oil is found there. Similarly, to take advantages of lower labour costs, and not strict environmental standards, multinational corporate firms set up production units in developing countries.

Alternative Methods of Foreign Investment by Multinational Companies:

In order to increase their profitability many giant firms find it necessary to go in for horizontal and vertical integration. For this purpose they find it profitable to set up their production or distribution units outside their home country. The firms that sell abroad the products produced in the home country or the products produced abroad to sell in the home country must decide how to manage and control their assets in other countries. In this regard, there are three methods of foreign investment by multinational firms among which they have to choose which mode of control over their assets they adopt.

There are three main modes of foreign investment:

1. Agreement with Local Firms for Sale of MNCs Products:

A multinational firm can enter into an agreement with local firms for exporting the product produced by it in the home country to them for sale in their countries. In this case, a multinational firm allows the foreign firms to sell its product in the foreign markets and control all aspects of sale operations.

2. Setting up of Subsidiaries:

The second mode for investment abroad by a multinational firm is to set up a wholly owned subsidiary to operate in the foreign country. In this case a multinational firm has complete control over its business operations ranging from the production of its product or service to its sale to the ultimate use or consumers. A subsidiary of a multinational corporation in a particular country is set up under the company act of that country. Such subsidiary firm benefits from the managerial skills, financial resources, and international reputation of their parent company. However, it enjoys some independence from the parent company.

3. Branches of Multinational Corporation:

Instead of establishing its subsidiaries, Multinational Corporation can set up their branches in other countries. Being branches they are not legally independent business unit but are linked with their parent company.

4. Foreign Collaboration or Joint Ventures:

Thirdly, the multinational corporations set up joint ventures with foreign firms to either produce its product jointly with local companies of foreign countries for sale of the product in the foreign markets. A multinational firm may set up its business operation in collaboration with foreign local firms to obtain raw materials not available in the home country. More often, to reduce its overall production costs multinational companies set up joint ventures with local foreign firms to manufacture inputs or subcomponents in foreign markets to produce the final product in the home country.

Some of world's largest multinational corporations are given below:

Table 1: World's Some Important Non-Financial Multinational Corporations

Table I: World's Some Important Non-Financial Multinational Corporations

S.No.	*International Corporation*	*Parent Country*	*Industry of operation*
1.	General Electric	United States	Electronics
2.	Exxon Mobil Corporation	United States	Petroleum (exploring, refining and distributing)
3.	Royal Duch Shell Group	Netherland/UK	-do-
4.	General Motors	United States	Motor Vehicles
5.	Ford Motor Co.	United States	Motor Vehicles
6.	Toyata Motor Co.	Japan	Motor Vehicles
7.	IBM	United States	Computers
8.	BP	United Kingdom	Petroleum (Exp/Ref./Distt.)
9.	Nesle SA	Switzerland	Food/Beverages
10.	Nippon Oil Co.	Japan	Petroleum/Expl., Ref./Distt.
11.	Sieman AG	Germany	Electronics
12.	BMW AG	Germany	Motors Vehicles
13	ABB	Switzerland	Electrical equipment
14.	Sony Corporation	Japan	Electronics
15.	Seagram	Canada	Food/Beverages
16.	Aventis	France	Pharmaceuticals/Chemicals
17.	Roche Group	Switzerland	Pharmaceuticals
18.	Honda Motor Co.	Japan	Motor Vehicles
19.	Phillips Electronics	Netherland	Electronics
20.	Hewlett-Packard	United States	Electronics/Computers

Role of Multinational Corporations in the Indian Economy:

Prior to 1991 Multinational companies did not play much role in the Indian economy. In the pre-reform period the Indian economy was dominated by public enterprises. To prevent concentration of economic power industrial policy 1956 did not allow the private firms to grow in size beyond a point. By definition multinational companies were quite big and operate in several countries. While multinational companies played a significant role in the promotion of growth and trade in South-East Asian countries they did not play much role in the Indian economy where import-substitution development strategy was followed. Since 1991 with the adoption of industrial policy of liberalisation and privatisation rote of private foreign capital has been recognised as important for rapid growth of the Indian economy. Since source of bulk of foreign capital and investment are Multinational Corporation, they have been allowed to operate in the Indian economy subject to some regulations. The following are the important reasons for this change in policy towards multinational companies in the post-reform period.

1. Promotion of Foreign Investment:

In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India. The liberalised foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.

For example, the effect of Suzuki firm's investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars. Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

2. Non-Debt Creating Capital inflows:

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from India and this resulted in balance of payments crisis in 1991. As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India's balance of payments (BOP).

3. Technology Transfer:

Another important role of multinational corporations is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology. Whenever, multinational firms set up their subsidiary production units or joint- venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery. As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

4. Promotion of Exports:

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China's exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry. Historically in India, multinationals made large investment in planlations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India. However, in case of Pepsi, a famous cold -drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

5. Investment in Infrastructure:

With a large command over financial resources and their superior ability to raise resources both globally and inside India it is said that multinational corporations could invest in infrastructure such as power projects, modernisation of airports and posts, telecommunication. The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth. In view of above, even Common Minimum Programme of the present UPA government provides that foreign direct investment (FDI) will be encouraged and actively sought, especially in areas of (a) infrastructure, (b) high technology and (c) exports, and (d) where domestic assets and employment are created on a significant scale.

A Critique of Multinational Corporations:

In recent years foreign direct investment through multinational corporations has vastly increased in India and other developing countries. This vast increase in investment by multinational corporations in recent years is prompted by factors (1) the liberalisation of industrial policy giving greater role to the private sector, (2) opening up of the economy and liberalisation of foreign trade and capital inflows. In this economic environment multinational corporations which are in search for global profits are induced to make investment in developing countries. As explained above, foreign direct investment by multinational firms bring many benefits to the recipient countries but there are many potential dangers and disadvantages from the viewpoint of economic growth and employment generation. Therefore, role of multinational corporations in India and other developing countries have been criticised on several grounds. We discuss below some of the criticisms levelled against multinational corporations.

Capturing Markets:

1. First, it is alleged that multinational corporations invest their capital and locate their manufacturing units on their own or in collaboration with local firms in order to sell their products and capture the domestic markets of the countries where they invest and operate. With their vast resources and competitive strength, they can weed out their competitive firms. For example, in India if corporate multinational firms are allowed to sell or produce the products presently produced by small and medium enterprises, the latter would not be able to compete and therefore would be thrown out of business. This will lead to reduction in employment opportunities in the country.

2. Use of Capital-intensive Techniques:

It has been seen that increasing capital intensity in modern manufacturing sector is responsible for slow growth of employment opportunities in India's industrial sector. These capital-intensive techniques may be imported by large domestic firms but presently they are being increasingly used by multinational corporations which bring their technology when they invest in India. Emphasising this factor, Thirwall rightly writes, "In this case the technology may be inappropriate not because there is not a spectrum of technology or inappropriate selection is made but because the technology available is circumscribed by the global profit maximising motives of multinational companies investing in the less-developed country concerned

3. Encouragement to Inessential Consumption:

The investment by multinational companies leads to overall increase in investment in India but it is alleged that they encourage conspicuous consumption in the economy. These companies cater to the wants of the already well-to-do people. For example, in India very expensive cars (such as City Honda, Hyundai's Accent, Mercedes, Opal Astra, etc.) the air conditioners, costly laptops, washing machines, expensive fridges, 29″ and Plasma TVs are being produced/sold by multinational companies. Such goods are quite inappropriate for a poor country like India. Besides, their consumption has a demonstration effect on the consumption of others. This tends to raise the propensity to consume and adversely affects the increase in savings of the country.

4. Import of Obsolete Technology:

Another criticism of MNCs is based on the ground that they import obsolete machines and technology. As mentioned above, some of the imported technologies are inappropriate to the conditions of Indian economy. It is alleged that India has been made a dumping ground for obsolete technology. Moreover, the multinational corporations do not undertake Research and Development (R&D) in India to promote local technologies suited to the Indian factor-endowment conditions. Instead, they concentrate R&D activity at their head quarters.

5. Setting up Environment-Polluting Industries:

It has been found that investment by multinational corporations in developing countries such as India is usually made for capturing domestic markets rather than for export promotion. Moreover, in order to evade strict environment control measures in their home countries they set up polluting industrial units in India. A classic example of this is a highly polluting chemical plant set up in Bhopal resulting in gas tragedy when thousands of people were either killed or made handicapped due to severe ailments. "With the tightening of environmental measures in the such countries, there is a tendency among the MNCs to locate the polluting industries in the poor countries, where environmental legislation is non-existent or is not properly implemented, as exemplified in the Bhopal gas tragedy".

6. Volatility in Exchange Rate:

Another major consequence of liberalised foreign investment by multinational corporations is its impact on the foreign exchange rate of the host country. Foreign capital inflows affect the foreign exchange rate of the Indian rupee. A large capital inflow through foreign investment brings about increase in the supply of foreign exchange say of US dollars. With demand for foreign exchange being given, increase in supply of foreign exchange will lead to the appreciation of exchange rate of rupee. This appreciation of the Indian rupee will discourage exports and encourage imports causing deficit in balance of trade. For example, in India in the fiscal years 2004-05 and 2005-06, there were large capital inflows by FII (giant financial multinationals) in the Indian economy to take advantage of higher interest rates here and also booming of the Indian capital market.

On the other hand, when interest rates rise in the parent countries of these multinationals or rates of return from capital markets go up or when there is loss of confidence in the host country about its capacity to make payments of its debt as happened in case of South-East Asia in the late nineties there is large outflow of capital by multinational companies resulting in the crisis and huge depreciation of their exchange rate. Thus, capital inflows and outflows by multinationals have been responsible for large volatility of exchange rate. Then there is the question of repatriation of profits by the multinationals. Though a part of profit is reinvested by the multinational companies in the host country, a large amount of profits are remitted to their own parent countries. This has a potential disadvantage for the developing countries, especially when they are facing foreign exchange problem. Commenting on this Thirwall writes "FDI has the potential disadvantage even when compared with loan finance, that there may be outflow of profits that lasts much longer.

Transfer Pricing and Evasion of Local Taxes:

Multinational corporations are usually vertically integrated. The production of a commodity by multinational firm comprises various phases in its production the components used in the production of a final commodity may be produced in its parent country or in its affiliates in other countries. Transfer pricing refers to the prices a vertically integrated multinational firm charges for its components or parts used for the production of the final commodity, say in

India. These prices of components or parts are not real prices as determined by demand for and supply of them. They are arbitrarily fixed by the companies so that they have to pay less taxes in India. They artificially inflate the transfer prices for intermediate products (i.e., components) produced in their parent country or their overseas affiliates so as to show lower profits earned in India. As a result, they succeed in evading corporate income tax.

Conclusion:

We have seen above foreign investment by multinational companies have both advantages and disadvantages. Therefore, they need regulation and should be permitted in selected sectors and also subject to a cap on their investment in particular fields. If objective of economic growth with stability and social justice is to be achieved, there should not be complete open door policy for them. It is true that multinational corporations take risk in making investment in India, they bring capital and foreign exchange which are non-debt creating, they generally promote technology and can help in raising exports. But they must be regulated so that they serve these goals. They should be allowed to invest in infrastructure, high-technology areas, and in industries whose products they can export and if they help in generating net employment opportunities. We agree with Colman and Nixon who write:

"Transnational corporations cannot be directly blamed for lack of development (or the direction development is taking) within less developed countries. Their prime objective is global profit maximisation and their actions are aimed at achieving that objective, not developing the host less developed country. If the technology and products that they introduce are inappropriate, if their actions exacerbate regional and social inequalities, if they weaken the balance of payments position, in the last resort it is up to the government of less developed country to pursue policies which will eliminate the causes of these problems."

Exchange Rate

An international exchange rate, also known as a foreign exchange (FX) rate, is the price of one country's currency in terms of another country's currency. When selling products internationally, the exchange rate for the two trading countries' currencies is an important factor.

Factors in fluence Exchange Rates

Aside from factors such as interest rates and inflation, the exchange rate is one of the most important determinants of a country's relative level of economic health. Exchange rates play a vital role in a country's level of trade, which is critical to most every free market economy in the world. For this reason, exchange rates are among the most watched, analyzed and governmentally manipulated economic measures. But exchange rates matter on a smaller scale as well: they impact the real return of an investor's portfolio. Here we look at some of the major forces behind exchange rate movements.

Before we look at these forces, we should sketch out how exchange rate movements affect a nation's trading relationships with other nations. A higher currency makes a country's exports more expensive and imports cheaper in foreign markets. A lower currency makes a country's exports cheaper and its imports more expensive in foreign markets. A higher exchange rate can be expected to lower the country's balance of trade, while a lower exchange rate would increase it.

Determinants of Exchange Rates

Numerous factors determine exchange rates, and all are related to the trading relationship between two countries. Remember, exchange rates are relative, and are expressed as a comparison of the currencies of two countries. The following are some of the principal determinants of the exchange rate between two countries. Note that these factors are in no particular order; like many aspects of economics, the relative importance of these factors is subject to much debate.

1. Differentials in Inflation

As a general rule, a country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies. During the last half of the 20th century, the countries with low inflation included Japan, Germany and Switzerland, while the U.S. and Canada achieved low inflation only later. Those countries with higher inflation typically see depreciation in their currency in relation to the currencies of their trading partners. This is also usually accompanied by higher interest rates.

2. Differentials in Interest Rates

Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Higher interest rates offer lenders in an economy a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise. The impact of higher interest rates is mitigated, however, if inflation in the country is much higher than in others, or if additional factors serve to drive the currency down. The opposite relationship exists for decreasing interest rates - that is, lower interest rates tend to decrease exchange rates.

3. Current-Account Deficits

The current account is the balance of trade between a country and its trading partners, reflecting all payments between countries for goods, services, interest and dividends. A deficit in the current account shows the country is spending more on foreign trade than it is earning, and that it is borrowing capital from foreign sources to make up the deficit. In other words, the country requires more foreign currency than it receives through sales of exports, and it supplies more of its own currency than foreigners demand for its products. The excess demand for foreign currency lowers the country's exchange rate until domestic goods and services are cheap enough for foreigners, and foreign assets are too expensive to generate sales for domestic interests.

4. Public Debt

Countries will engage in large-scale deficit financing to pay for public sector projects and governmental funding. While such activity stimulates the domestic economy, nations with large public deficits and debts are less attractive to foreign investors. The reason? A large debt encourages inflation, and if inflation is high, the debt will be serviced and ultimately paid off with cheaper real dollars in the future. In the worst case scenario, a government may print money to pay part of a large debt, but increasing the money supply inevitably causes inflation. Moreover, if a government is not able to service its deficit through domestic means (selling domestic bonds, increasing the money supply), then it must increase the supply of securities for sale to foreigners, thereby lowering their prices. Finally, a large debt may prove worrisome to foreigners if they believe the country risks defaulting on its obligations. Foreigners will be less willing to own securities denominated in that currency if the risk of default is great. For this reason, the country's debt rating (as determined by Moody's or Standard & Poor's, for example) is a crucial determinant of its exchange rate.

5. Terms of Trade

A ratio comparing export prices to import prices, the terms of trade is related to current accounts and the balance of payments. If the price of a country's exports rises by a greater rate than that of its imports, its terms of trade have favorably improved. Increasing terms of trade shows greater demand for the country's exports. This, in turn, results in rising revenues from exports, which provides increased demand for the country's currency (and an increase in the currency's value). If the price of exports rises by a smaller rate than that of its imports, the currency's value will decrease in relation to its trading partners.

6. Political Stability and Economic Performance

Foreign investors inevitably seek out stable countries with strong economic performance in which to invest their capital. A country with such positive attributes will draw investment funds away from other countries perceived to have more political and economic risk. Political turmoil, for example, can cause a loss of confidence in a currency and a movement of capital to the currencies of more stable countries.

Exchange rates and their impact on Indian economy

As we have been reading in almost all dailies during recent times that Indian rupee has depreciated against dollar by 8% since May 2013.In this article an effort is being made to study and analyse this trend with some theoretical framework on Exchange rate regime in India, Real and Nominal Exchange Rates (REER), difference between currency depreciation/devaluation and currency appreciation/revaluation, concept of Current Account Deficit (CAD), Purchasing Power Parity, linkages between exchange rate policy and fiscal/monetary policy, and how inflation, interest rates are linked to exchange rate. Further advantages and disadvantages of recent developments on the economy as a whole and on some specific sectors will also be covered.

Exercise Questions

Define and explain the difference between the following pairs of terms:

a. Spot market Forward market

   Ans: The spot market involves transactions in the present; the forward market involves contracts today for transactions that will take place in the future.

b. Interest rate arbitrage Covered interest arbitrage

   Ans: Interest rate arbitrage is the transfer of funds to another currency to take advantage of a higher interest rate. Covered interest arbitrage is the same thing, accompanied by a forward-market transaction to protect against changes in exchange rates.

c. Real exchange rate Nominal exchange rate

d. Ans: The nominal exchange rate is expressed in units of one currency per unit of the other. A real exchange rate adjusts this for changes in price levels in both currencies.

Globalization on Indian Economy

In the 1990s due to change in world economic order and due to heavy pressures from rich countries like USA, Japan, European countries dominating the WTO (World Trade Organisation having 135 members, established in 1995) and IMF (International Monetary

Fund) and World Bank engaged in development financing activities, the developing and the poor countries all over the world were forced to open their trade and market and allow foreigners to share their major chunk of a business. Thus, India first started the process of globalisation and liberalisation in 1991 under the Union Finance Minister, Shri Manmohan Singh.

The first 5 years in globalisation did not yield appreciable results. The coming of Multinational cold drinks manufacturers like Coke, Pepsi, and others like Mc. Donald, KFC, Boomer Chewing gums, Uncle Chips, Cornflakes only dominated the show. Due to further liberalization of trade and the privatization, the late 1990s showed the effect to globalisation by the coming of giant car manufacturers like Daewoo Motors, Ford, Honda, Hyundai which resulted in availability of varieties of cars and reduction of domestic car prices.

Electronic giants like IBM and world leaders in the telecommunication sector like Ericsson, Nokia, Aiwa etc., delivered wide range of quality products at affordable prices and brought a major revolution in Indian electronic industries. In the power sector Enron, AES-CESCO are dominating the show. The resultant effects were tremendous boost to industrial sector economy. The price level came down due to cut throat competition and Indian consumers are so far happy. Recently in May 2001, the Indian Government also opened the defence sector towards globalisation and privatisation.

Globalisation, but for whose benefit?

Due to globalisation and liberalisation, the Indian market is flooded with quality foreign products, affecting the Indian industries adversely. This has also resulted in the loss of jobs to many poor workers. Toys, bicycles and motor bikes from China, soaps and toiletries from Indonesia and Malaysia, cheese and fruits from Australia and many more await the Indian consumers with the lifting of trade restrictions. Globalisation has turned out to be a bonanza for consumers but a grave for Indian producers, especially small-scale sectors, because of their age-old technology and financial bottlenecks to update their machines and technology. The import of edible oils, grains at lower prices have affected the Indian farmers heavily. Now farming is no more profitable because of marginal remuneration. Indian manufacturers are no longer able to compete with their global counterparts. The closing of industries and manpower lay off have become very common.

Let us study the sector wise effects:

(1) Effect of Globalisation on Students and Education Sectors:

Due to globalisation, the availability of study books and information on the internet or the World Wide Web (www) have increased tremendously. However, the exorbitant cost factors have made higher and specialised education beyond the reach of poor and middle class students.

Hundreds of foreign universities have started collaborating with Indian universities and study institutions. This has affected the course fees. For Engineering, Medical and Management studies, the course fees are hovering around Rs.20 to Rs.50 lakhs. Intelligent students from middle and poor class may have to settle for daily wages earning in future as they cannot afford for the same.

(2) Effect on Health Sectors:

It is unbelievable that in India, poor people have to spend a minimum of Rs.200 for a mere seasonal cold or minor stomach ailments, thanks to the multinationals pharmaceutical companies engaged in sky rocketing cost of common medicines under their brand names.

The private sector hospitals like Apollo, Medicare will be only too happy to prepare a bill of Rs.5 lakh to Rs.10 lakh for heart or Kidney operation. The monitoring of health electronically through the internet will worsen the situation further in the years to come. Death will be the easiest option for poor following the effect of globalisation in health sector.

(3) Effect on Agricultural sector:

The globalisation of trade in the agricultural sector is perhaps proving to be a big blunder. The farmers will have to pay a very heavy price, for better variety of imported seeds having resistance to diseases, because of the patent rights imposed by WTO. Over and above, the Indian farmer cannot export their products to rich countries because of inferior technology and stringent quality parameters imposed by foreign consumers. The large scale suicide by Indian farmers in Karnataka, Punjab and Haryana under the burden of heavy loans is directly attributed to this. The Indian agriculture is almost on its deathbed. The minimum cost of eatable rice is Rs.12 per kg and apples from Australia at Rs. 100 to Rs.150 per kg cannot be afforded by poor.

(4) Effect on Employment sector:

The employment scenario in India is probably the worst in recent years due to globalisation. The restrictions of use of child labour and fair pay to workers have a badly affected the traditional industries like cottage, handloom, artisans and carving, carpet, jewellery, ceramic, and glassware etc., where the specialised skills inherited for generations were passed on to the next generation from the early age of 6 to 7 years. The globalisation and trade restrictions under the influence of WTO have virtually killed business in these sectors.

Conclusion: (Positive aspects):

Though globalisation and liberalisation of trade have resulted in the availability of large number of quality products at reasonable price, the overall economic benefits are negated due to the slow death of small scale and traditional goods producing sectors employing a large population. The rising cost of basic sustenance products like garments, footwear, cereals, edible oils, petrol and kerosene, medicines and health care items, decrease in farm output, decrease in purchasing power of poor are some of the alarming issues that have given rise to serious doubts about the benefits of globalisation.

The increasing wide gap between the poor and the rich is a major cause of concern as ” will attribute to the increase in crime rates, lawlessness, anti-national activities, terrorism, abduction, black mailing etc. The globalisation process, that enables investment of foreign money, may turn out to be a serious ‘debt rap’ in future as was experienced in Indonesia, Brazil, Korea and some other countries. Moreover, for a common man, the globalisation is of no meaning. He wants a secured source in terms of earning money, maintains his livelihood, has reasonable savings and appreciates a trouble free life. Therefore, globalisation may only add to the India’s woes.

Conclusion: (Positive aspects):

The biggest contribution of globalisation is in the field of quality and development of products with various features to suit the Indians. There are varieties of semi-processed food products to suit every taste in the market which has helped us to save time. Globalisation has contributed tremendously to have access to important information towards quality education Due to globalisation; the communication sector has got a tremendous boost. We have now cell phones; internet and the availability of latest drugs are helping to save valuable lives along with good doctors sitting across the Web to advice. Due to globalisation, the car manufacturer like Maruti is not able to take us as for ride.

Now, wide choices are available to select electronic goods. Life is more comfortable with cheaper air conditioners. Most importantly, the unscrupulous Indian manufacturers are not able to take us for a ride. Thanks to globalisation, we are able to dream to send a man to the moon due to a better economy and technological competence.

WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization is an international organization designed by its founders to super view and liberalizes international trade. The organization officially commenced on January 1, 1995 under the Marrakesh Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1947. The WTO deals with regulation of trade between participating countries. It provides a framework for negotiating and formalizing trade agreements and dispute resolution process aimed at enforcing participants' adherence to WTO agreements. Its head quarter is in Geneva, Switzerland.

The WTO has 154 members, which represents more than 95% of total world trade. The WTO is governed by a Ministerial Conference, which meets every two years; a General Council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director general, who is appointed by the Ministerial Conference. The inaugural ministerial conference was held in Singapore in 1996. Disagreement between largely developed and developing economics emerged during this conference over four issues initiated by this conference, which is also known as "Singapore issues".

Issues in WTO

Agriculture has become the linchpin of the agenda for both developing and developed countries. Three other issues have been important. The first, now resolved, related to compulsory licensing of medicines and patent protection. Second deals with a review of provisions giving special and differential treatment to developing countries. Third addresses problems that developing countries are having in implementing current trade obligations. The "Singapore issues" refers to four working group set up during the WTO Ministerial conference of 1996 in Singapore. These groups are tasked with the issues like: transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition. These issues were pushed at successive ministerial by the European Union. Japan and Korea, and opposed by most developing countries. The United States was lukewarm about the inclusion of these issues, indicating that it could accept some or all of them at various times, but preferring to focus on market access.

Agreements

The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. Some of the most important agreements follow.

a) a)General Agreement on Trade in Services (GATS): This was created to extend the multilateral trading system to service sector. The Agreement entered into force in January 1995.
b) Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS) : This agreement sets down minimum standards for many forms of Intellectual Property regulation. It was negotiated at the end of the Uruguay round of the GATT in 1994.
c) Sanitary and Phyto-Sanitary Agreement (SPS): Under this agreement, the WTO sets constraints on member's policies relating to food safety as well as animal and plant health (imported pests and diseases).
d) Agreement of Technical Barriers to Trade (TBT): The object of the TBT Agreement is to "ensure that technical negotiation and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade.

India and WTO

The organization is currently endeavoring to persist with trade negotiation called Doha Development Agenda (Doha Round), which was launched in 2001 to enhance equitable participation of poorer countries. The Doha Round of trade negotiations is important for the developing countries like India. The main negotiating issues in the WTO from India's perspective are

a) In the case of agriculture, there has been reduction in overall trade-distorting support by developed countries.
b) The Special and Differential (S&D) treatment for developing countries must be substantial. And the Non-Tariff Barriers such as horizontal mechanism must be taken up.
c) Clarifying and improving, anti dumping Agreement and the Agreement on Subsidies and Countervailing Measures.
d) Establishing a clear linkage between the TRIPS Agreement and the Convention on Biodiversity.

Impact of the World Trade Organization on the Indian Economy

The world trade organization was established to deal with all the major aspects of international trade and it had far reaching effects not only on India's foreign trade but also on its internal economy. The impact of the WTO on the basis and general concepts.

Impact

The WTO has both favorable and non-favorable impact on the Indian economy.

Favourable Impact

1) **Increase in export earnings:**

Increase in export earnings can be viewed from growth in merchandise exports and growth in service exports:

- Growth in merchandise exports:

  The establishment of the WTO has increased the exports of developing countries because of reduction in tariff and non tariff trade barriers. India's merchandise export have increased from 32 billion us $(1995) to 185 billion u $ (2008-09).

- Growth in service exports:

  The WTO introduced the gats (general agreement on trade in services) that proved beneficial for countries like india. India's service exports increased from 5 billion us $(1995) to 102 billion us $ (2008-09)(software services accounted) for 45% of India's service exports)

2) Agricultural exports:

Reduction of trade barriers and domestic subsidies raise the price of agricultural product in international market, India hope to benefit from this in the form of higher export earnings from agriculture.

3) Textile and clothing

The phasing out of the MFA will largely benefit the textiles sectors. It will help the developing countries like India to increase the textiles and clothing.

4) Foreign Direct Investment

As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by the member nations of the WTO. This has benefited developing countries by way of foreign direct investment, euro equities and portfolio investment. In 2008-09, the net foreign direct investment in India was 35 billion us $

5) Multi-lateral rural discipline

T is, expected that fair trade condition will be created, due to rural and discipline related to practices like and-dumping subsidies and countervailing measure, safeguards and dispute settlements. Such condition will benefit India in its attempt to globalize its economy.

UNFAVOURABLE IMPACT:

1) **TRIPs**

Protection of intellectual property rights has been one of the major concerns of the WTO. As a member of the WTO, India has to comply with the TRIPs standards.

However, the agreement on TRIPs goes against the Indian patent act, 1970, in the following . Ways:

- **Pharmaceutical Sector:**

  Under the Indian patent act, 1970, only process patents are granted to chemicals, drugs and medicines. Thus, a company can legally manufacture once it had the product patent. So Indian Pharmaceutial companies could sell good quality products (medicines) at low prices. However under TRIPs agreement, product patents will also be granted that will raise the prices of medicines, thus keeping them out of reach of the poor people, fortunately, most of drugs manufactured in India are off –patents and so will be less affected.

- **Agriculture:**

  Since the agreement on TRIPs extends to agriculture as well; it will have considerable implications on Indian agriculture. The MNG, with their huge financial resources, may also take over seed production and will eventually control food production. Since a large majority of Indian population depends on agriculture for their livelihood, these developments will have serious consequences.

Micro-organisms: Under TRIPs Agreement, patenting has been extended to micro-organisms as well. These mills largely benefit MNCs and not developing countries like India.

2) TRIMS:

The Agreement on TRIMs also favors developed nations as there are no rules in the agreement to formulate international rules for controlling business practices of foreign investors. Also, complying with the TRIMs agreement will contradict our objective of self-reliant growth based on locally available technology and resources.

3) GATS:

The Agreement on GATS will also favors the developed nations more. Thus, the rapidly growing service sector in india will now have to compete with giant foreign firms. Moreover since foreign firms are allowed to remit their profits, dividends and royalties to their parent company, it will cause foreign exchange burden for india.

4) TRADE AND NON –TARIFF Barriers:

Reduction of trade and non –tariff barriers has adversely affected the export of various developing nation .various Indian product have been hive by non tariff barriers .these include textiles ,marine product ,floriculture ,pharmaceuticals basmati rice ,car pets leather good ect.

5) LDC exports :

Many member nation have agreed to provide duty –frce and quote –frce market access to world Trade All products originating from leas development countries. India will have to now bear the adverse effect of competing with cheap LDC exports internationally, Moreover, LDC exports will also come to the Indian market and thus compete with domestically produced goods.

CONCLUSION

Thus the WTO is a powerful body that will enact international laws on various matters. It will also globalist many countries and helps them to develop their competitive advantages and seek benefit from advanced technology of other nations. Though countries like India will face serious problems by complying to the WTO agreement, it can also benefit from it by taking advantage of the changing international environment.

Questions

1. What are the types of foreign trade
2. What are the introduction of foreign trade?
3. Explain the Balance of Trade (BOT) and Balance of Payment (BOP)
4. Explain the foreign direct investment?
5. Direction or sources of imports of India?
6. Explain the world trade organization

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