B.COM (H) 5th SEMESTER
INDIAN ECONOMY , PAPER CODE-301

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UNIT 1: NATURE OF INDIAN ECONOMY

The Need for Economic Development

- Now let's take a look at **economic development**. A country's economic development is usually indicated by an increase in citizens' quality of life. 'Quality of life' is often measured using the **Human Development Index**, which is an economic model that considers intrinsic personal factors not considered in economic growth, such as literacy rates, life expectancy and poverty rates.
- While economic growth often leads to economic development, it's important to note that a country's GDP doesn't include intrinsic development factors, such as leisure time, environmental quality or freedom from oppression. Using the Human Development Index, factors like literacy rates and life expectancy generally imply a higher per capita income and therefore indicate economic development.

Example of Economic Development

- For example, before the berry exporting business, most Utopians lived in small villages many miles from one another. Few Utopians had access to schools, fresh water or healthcare. Utopian men worked long hours attempting to farm land that was naturally unsuitable for most crops, just to feed their immediate families.

- After the berry exporting business, many Utopians found work through the new industry. Newly employed villagers relocated closer to the business, giving them better access to schools, healthcare and fresh water produced for the plant and surrounding areas. Most Utopian men were able to trade labor-intensive hours in the fields for easier eight-hour shifts. Besides earning a salary, the new work enabled them more leisure time and contributed to longer life spans. Thus, Utopia experienced economic development through economic growth.

The causes of Underdevelopment include:

- Imperialism and neocolonialism from former or superior nations whom directly or indirectly might be in the helms of affairs of these developing countries. They decide the price of commodities at the international level.
- The selfishness of government in developing countries that collect taxes from the people care for their own interest at the expense of the ordinary man.

- Lackadaisical attitudes of the population of the developing countries that to work and solve their problems rather relying on governments solely for help.
- Traditionalism and superstition of the developing countries in solving problems. People feel adamant to change and believe that whatever happens to them is as a result of destiny or the will of some supernatural being.
- Small human capital and bad know-how in post communist country. The system was a killer for anyone wanted to be better and to know more than an average person. The system hated all kind of leaders and those who knew how to organize a business. From that point, many people in today post communist countries do not know and do not want to overtake a risk that every business brings

Determinants of Development

There are mainly two types of determinants (factors) which influence the economic development of a country.

A) Economic Factors in Economic Development:

In a country's economic development the role of economic factors is decisive. The stock of capital and the rate of capital accumulation in most cases settle the question whether at a juven point of time a country will grow or not. There are a few other economic factors which also have some bearing on development but their importance is hardly comparable to that of capital formation. The surplus of food grains output available to support urban population, foreign trade

conditions and the nature of economic system are some such factors whose role in economic development has to be analyzed:

1) Capital Formation:

The strategic role of capital in raising the level of production has traditionally been acknowledged in economics. It is now universally admitted that a country which wants to accelerate the pace of growth, has m choice but to save a high ratio-of its income, with the objective of raising the level of investment. Great reliance on foreign aid is highly risky, and thus has to be avoided. Economists rightly assert that lack of capital is the principal obstacle to growth and no developmental plan will succeed unless adequate supply of capital is forthcoming.

2) Natural Resources:

The principal factor affecting the development of an economy is the natural resources. Among the natural resources, the land area and the quality of the soil, forest wealth, good river system, minerals and oil-resources, good and bracing climate, etc., are included. For economic growth, the existence of natural resources in abundance is essential. A country deficient in natural resources may not be in a position to develop rapidly. In fact, natural resources are a necessary condition for economic growth but not a sufficient one. Japan and India are the two contradictory examples.

3) Marketable Surplus of Agriculture:

Increase in agricultural production accompanied by a rise in productivity is important from the point of view of the development of a country. But what is more important is that the marketable surplus of agriculture increases. The term ‘marketable surplus’ refers to the excess of output in the agricultural sector over and above what is required to allow the rural population to subsist.

4) Conditions in Foreign Trade:

Foreign trade has proved to be beneficial to countries which have been able to set-up industries in a relatively short period. These countries sooner or later captured international markets for their industrial products. Therefore, a developing country should not only try to become self-reliant in capital equipment as well as other industrial products as early as possible, but it should also attempt to push the development of its industries to such a high level that in course of time manufactured goods replace the primary products as the country’s principal exports.

In countries like India the macro-economic interconnections are crucial and the solutions of the problems of these economies cannot be found merely through the foreign trade sector or simple recipes associated with it.

5) Economic System:

The economic system and the historical setting of a country also decide the development prospects to a great extent. There was a time when a country could have a laissez faire economy and yet face no difficulty in making economic progress. In today's entirely different world situation, a country would find it difficult to grow along the England's path of development.

B) Non-Economic Factors in Economic Development:

From the available historical evidence, it is now obvious that non- economic factors are as much important in development as economic factors. Here we attempt to explain how they exercise influence on the process of economic development:

1) Human Resources:

Human resources are an important factor in economic development. Man provides labour power for production and if in a country labour is efficient and skilled, its capacity to contribute to growth will decidedly be high. The productivity of illiterate, unskilled, disease ridden and superstitious people is generally low and they do not provide any hope to developmental work in a country. But in case human resources remain either unutilized or the manpower management remains defective, the same people who could have made a positive contribution to growth activity prove to be a burden on the economy.

2) Technical Know-How and General Education:

It has never been, doubted that the level of technical know-how has a direct bearing on the pace of development. As the scientific and technological knowledge advances, man discovers more and more sophisticated techniques of production which steadily raise the productivity levels.

3) Political Freedom:

Looking to the world history of modern times one learns that the processes of development and underdevelopment are interlinked and it is wrong to view them in isolation. We all know that the under-development of India, Pakistan, Bangladesh, Sri Lanka, Malaysia, Kenya and a few other countries, which were in the past British colonies, was linked with the development of England. England recklessly exploited them and appropriated a large portion of their economic surplus.

Dadabhai Naoroji has also candidly explained in his classic work 'Poverty and Un-British Rule in India' that the drain of wealth from India under the British was the major cause of the increase

in poverty in India during that period, which in turn arrested the economic development of the country.

4) Social Organization:

Mass participation in development programs is a pre-condition for accelerating the growth process. However, people show interest in the development activity only when they feel that the fruits of growth will be fairly distributed. Experiences from a number of countries suggest that whenever the defective social organisation allows some elite groups to appropriate the benefits of growth, the general mass of people develop apathy towards State's development programs. Under the circumstances, it is futile to hope that masses will participate in the development projects undertaken by the State.

5) Corruption:

Corruption is rampant in developing countries at various levels and it operates as a negative factor in their growth process. Until and unless these countries root-out corruption in their administrative system, it is most natural that the capitalists, traders and other powerful economic classes will continue to exploit national resources in their personal interests.

6) Desire to Develop:

Development activity is not a mechanical process. The pace of economic growth in any country depends to a great extent on people's desire to develop. If in some country level of consciousness is low and the general mass of people has accepted poverty as its fate, then there will be little hope for development. According to Richard T. Gill, "The point is that economic development is not a mechanical process; it is not a simple adding- up of assorted factors. Ultimately, it is a human enterprise. And like all human enterprises, its outcome will depend finally on the skill, quality and attitudes of the men who undertake".

National Income of India-estimates

The real national income of India has increased at an annual average rate of 4.5 per cent. The rate of growth initially decelerated over the years but has subsequently accelerated continuously.

During the first decade, real income went up by 3.8 per cent, this rate came down to 3.5 per cent in the 1960s, 3.1 per cent in the 1970s and 5.5 per cent in 1980s. In the first three years of the 1990s, the GDP grew at 4 per cent annually.

In the following four years, the growth rate jumped to 7.1 per cent but only to fall back to 5.2 per cent in the succeeding five years. The major breakthrough occurred and sustained during the period 2003-08; real GDP grew at 8.2 per cent annually in the period 2003-08.

The world economy went through an unprecedented crisis in 2008-09. The slowdown affected all the countries. By the end of the year 2008-09, India was rapidly returning to the buoyant years preceding 2008.

The economy recovered to grow at 8.0 per cent during 2009-10, and further 8.6 per cent during 2010-11, with projections of 9.0 per cent during 2011-12. The Prime Minister's Economic Advisory Council (PMEAC) lowered the economic growth projection for the year 2011-12 to 8.2 per cent from 9 per cent.

Rise in Per Capita Income:

Per Capita Income is considered a better index of economic growth. In 1950-51 India's Per Capita Income at 1999-2000 prices was Rs. 5,708. Since then it rose to Rs. 19,331 in 2004-05 and in 2009-10 it stood at Rs. 33,731.

There has been more than fourfold increase in real Per Capita Income during the planning period. Growth in Per Capita Income was much less than growth in National Income because of high population growth rate. The Planning Commission expects that country's Per Capita Income would be doubled in the next 20 years.

Interregional Variations of National Income

Trends for Interstate Variation in National Income and GDP.
There is vast variation amongst the Indian states w.r.t per capita income and their contribution to national income.

High Income States	% share in NDP
MAHARASHTRA	13.3 %
UTTAR PRADESH	8.0 %
ANDHRA PRADESH	7.7 %
WEST BENGAL	7.2 %
GUJARAT	6.8 %

Low Income States	% share in NDP
JHARKHAND	1.6
ASSAM	1.7
CHATTISGARH	1.8
ORISSA	2.4
BIHAR	2.7

High income states	Per capita income (Rs p.a)	Low income states	Per Capita income
GOA	1,05,582	BIHAR	11,135
HARYANA	58,531	UTTAR PRADESH	16,060
MAHARASHTRA	47,051	MADHYA PRADESH	18,051
GUJARAT	45, 773	JHARKHAND	19,928
PUNJAB	44,923	ORISSA	23,403

UNIT 2 HUMAN RESOURCES AND ECONOMIC DEVELOPMENT

Demographic Features of Indian population

Table 1-4: Projected Age Structure of the Population as on 1st March
(million)

Year	1997	2002	2007	2012
Under 15	353.64	345.11	334.80	337.93
15-59	532.60	610.55	692.64	758.61
60+	63.64	71.94	84.01	98.50
Dependency ratios:				
(a) Young	0.66	0.57	0.48	0.45
(b) Old	0.12	0.12	0.12	0.13
(c) Total	0.78	0.69	0.60	0.58

***Note**:*
(1) dependency ratio for young is the ratio between under 15 population to 15-59 population
(2) dependency ratio for old is the ratio between 60+ population to 15-59 population
SOURCE: Report of the Technical Group on Population Projections constituted by Planning Commission, published as: Population Projections for India States 1996-2016, Registrar General, India (1996)

Table 1-5 :Population and Labour Force Growth

	Population		Labour Force	
	millions	% growth	millions	% growth
1978	637.6	-	255.8	-
1983	718.2	2.16	286.6	2.07
1994	895.0	2.10	368.5	2.39
1997	951.2	1.85	397.2	2.27
2002	1028.9	1.57	449.6	2.48
2007	1112.9	1.57	507.9	2.44
2012	1196.4	1.45	562.9	2.06

Note: Population and Labour Force figures are based on Tables 4.5 and 4.9

The details of the labour force participation rates and its likely evolution over time are given. However, the likely position of labour force growth relative to the growth rate in population is given in Table 1-5. It will be seen, that the growth rate of labour force is likely to be highest during the Ninth Plan period and only gradually decline thereafter. As a result, any planning over the perspective period will have to have employment generation as its central focus. If adequate work opportunities are not created, there would be growing incidence of unemployment in the country and an increase in the social tensions that arise there from.

Size and growth of population and economic development

Population is the resource of labor force. The larger the size of population, the larger will be the labor force. Labor alone cannot produce anything. If other resources required for production are also available in sufficient quantity then a labor force is productive assets for a country. If other resources are not available in sufficient quantities then large labor force can become an obstruction to faster economic growth. Some countries particularly the developing countries have fast growth rate of population.

Population Growth and Economic Development of a Country

Then population grows faster than GNP, the standard of living of the people does not improve. In fact rapid population growth has been obstructing economic growth in developing countries like India where since 1951 population has been growing at a relatively high rate.

In Table 41.1 we present population growth in India. It will be seen that since 1951, population has been growing at about 2 per cent or more. In other developing countries such as Pakistan Bangladesh, rate of population has been growing at about 2 per cent or more. In other developing countries such as Pakistan Bangladesh, rate of population has been greater than that of India.

However, it may be noted that over-population and rapid the population rate is especially an Asian problem. The developing countries of Latin America and Africa do not face this population explosion problem.

But for developing countries like India, population growth has to be checked if gains of development are not be nullified by it. It is worthwhile to note here that it is only China which has brought population growth rate quite will under control by adopting one child per family norm.

Table 41.1. Population Growth in India since 1951:

Year	Population (in millions)	Annual Average Growth Rate (%) during decade
1951	361	–
1961	439	1.96
1971	548	2.20
1981	683	2.22
1991	843	2.14
2001	1028	1.93
2011	1210	1.6

A democratic country like India cannot adopt coercive methods to control population. But, to show how rapid population growth retards economic development, it is necessary to mention that by economic development we mean not only increase in national income (GNP) or per capita income, but also reduction in unemployment as a result of the growth of employment opportunities and reduction in poverty and inequalities of income. Since economic growth depends on rate of saving and investment and productivity of labour, we will discuss the impact of population growth on these factors.

It is important to note here that in the present day's industrialised development countries,, in spite of Mathus' view to the contrary population growth was beneficial for economic growth rather than retarding it. It has been argued by some that population growth leads to increase in labour force which is an essential productive resource. By increasing a productive resource population growth will help in producing more output.

As someone has remarked population growth brings in more hands to work for production and therefore contributes to economic growth. Secondly, it has been pointed out that the increase in population leads to the increase in demand for goods.

Thus growing population means the growing market for goods is enlarged, they can be produced on a large scale and thus economies of large-scale production can be reaped. The economic

history of USA and European countries shows that population growth in them contributed greatly to the increase in their national output.

Problem of over population

According to the Indian census, carried out in 2011, the population of India was exactly 1,210,193,422, which means India has crossed the 1-billion mark. This is the second most populous country of the world after China and the various studies have projected that India will be world's number-1 populous country, surpassing China, by 2025. Inspite of the fact that the population policies, family planning and welfare programmes undertaken by the Govt. of India have led to a continuous decrease in the fertility rate, yet the actual stabilisation of population can take place only by 2050.

Causes of Over Population

The two main common causes leading to over population in India are:

- The birth rate is still higher than the death rate. We have been successful in declining the death rates but the same cannot be said for birth rates.
- The fertility rate due to the population policies and other measures has been falling but even then it is much higher compared to other countries.

The above causes are interrelated to the various social issues in our country which are leading to over population.

- **Early Marriage and Universal Marriage System:** Even though legally the marriageable age of a girl is 18 years, the concept of early marriage still prevails and getting married at an young age prolongs the child bearing age. Also, in India, marriage is a sacred obligation and a universal practice, where almost every woman is married at the reproductive age.
- **Poverty and Illiteracy:** Another factor for the rapid growth of population is poverty. Impoverished families have this notion that more the number of members in the family, more will be the numbers to earn income. Some feel that more children are needed to look after them in their old age. Also hunger can be cause of death of their children and hence the need for more children. Strange but true, Indian still lag behind the use of contraceptives and birth control methods. Many of them are not willing to discuss or are totally unaware about them. Illiteracy is thus another cause of over population

- **Age old cultural norm:** Sons are the bread earners of the families in India. This age old thought puts considerable pressure on the parents to produce children till a male child is born. More the better.
- **Illegal migration:** Last but not the least, we cannot ignore the fact that illegal migration is continuously taking place from Bangladesh, Nepal leading to increased population density.

Effects of Over Population

Even after 67 years of independence, the scenario of our country is not good, due to over population. Some major impacts of high population are as follows:

- **Unemployment:** Generating employment for a huge population in a country like India is very difficult. The number of illiterate persons increases every year. Unemployment rate is thus showing an increasing trend.
- **Manpower utilization:** The number of jobless people is on the rise in India due to economic depression and slow business development and expansion activities.

- **Pressure on infrastructure:** Development of infrastructural facilities is unfortunately not keeping pace with the growth of population. The result is lack of transportation, communication, housing, education, healthcare etc. There has been an increase in the number of slums, overcrowded houses, traffic congestion etc.
- **Resource utilization:** Land areas, water resources, forests are over exploited. There is also scarcity of resources.
- **Decreased production and increased costs:** Food production and distribution have not been able to catch up with the increasing population and hence the costs of production have increased. Inflation is the major consequence of over population.
- **Inequitable income distribution:** In the face of an increasing population, there is an unequal distribution of income and inequalities within the country widen.

Steps to Control Population in India

The Government of India, politicians, policy makers should initiate a bold population policy so that the economic growth of the country can keep pace with the demands of a growing population. Major steps which have been already implemented but still need to be emphasized more to control population. Increasing the welfare and status of women and girls, spread of education, increasing awareness for the use of contraceptives and family planning methods, sex education, encouraging male sterilization and spacing births, free distribution of contraceptives

and condoms among the poor, encouraging female empowerment, more health care centers for the poor, to name a few, can play a major role in controlling population.

Population Policy

Population policy determines the principles, objectives and policies adopted by the State as regards population issues for the purpose of influencing the population status, including variables in population growth and its main elements (fertility, births, deaths, geographical distribution, immigration, population composition such as population youthfulness or rising rate of the elderly, as well as general issues relating to health and education.

Population policy forms a large umbrella policy covering all programs and activities directly and indirectly influencing population variables.

A full fledged Department of Family Planning was established within the Ministry of Health, which was designated as the ministry of Health and Family Planning, and a Minister of the cabinet rank was placed in its charge. A cabinet committee of Family Planning, initially headed by the Prime Minister and later by the Finance Minister, was constituted at the central level.

In 1976, during emergency, the Government of India announced National Population Policy. Through this:

i. The Government proposed legislation to raise the age of marriage to 18 for girls and 21 for boys;

ii. The Government would take special measures to raise the level of female education in the states;

iii. As the acceptance of Family Planning by the poorer sections of society was significantly related to the use of monetary compensation as from May 1, 1976, to Rs. 150 for sterilization (by men or women) if performed with 2 children, Rs. 100 if performed with three living children and Rs. 70 if performed with four or more children.

The announcement of the National Population Policy 2000, by the NDA government in February 2000 and setting up of a National Population Commission, under the strong and promising leadership of then Prime Minister Mr. Atal Behari Vajpayee and comprising eminent persons

from all walks of life on May 11, 2000 reflected the deep commitment of the government to population stabilization programme.

The National Population Policy 2000 (NPP 2000), affirms the commitment of the government towards voluntary and informed choice and consent of citizens while availing of productive

health care services, and continuation of the target free approach in administering family planning services.

The NPP 2000 provides a policy frame work for advancing goals and prioritizing strategies during the next decade, to meet the reproductive and child health needs of the people of India, and to achieve net replacement levels (TFR) by 2010.

It is based upon the need to meet and simultaneously address issues of child survival, maternal health, and contraception, while increasing outreach and coverage of a comprehensive package of reproductive and child health services by government, industry and the voluntary non-government sector working in partnership

'Human Development Index - HDI'

A tool developed by the United Nations to measure and rank countries' levels of social and economic development based on four criteria: Life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita. The HDI makes it possible to track changes in development levels over time and to compare development levels in different countries.

'Human Development Index - HDI'

In 2010, the index ranked Norway, Australia, New Zealand, the United States and Ireland at the top of its list for "very high human development." The countries that fell at the bottom of its "low human development" list were Mozambique, Burundi, Niger, Congo and Zimbabwe. The index also shows that countries with lots of income do not always spend that money in ways that create high life expectancies or education levels.

New Economy Policy; - Privatization, Liberalization, Globalization

Industrial Policy-1991

With the gradual liberalisation of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalisation measures under its Industrial Policy on July 24, 1991.

Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(i) Liberalising the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialization of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas viz., industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

(1) Abolition of Industrial Licensing:

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalization measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent.

The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation.

To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to

health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

(2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses.

Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

The new industrial policy seeks to limit the role of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

(i) Reduced reservation for public sector:

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

(ii) Efforts to revive loss making enterprise:

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

(iii) Disinvestment in selected public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

(iv) Greater autonomy to public enterprises:

The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

(3) Liberalized Policy Towards Foreign Capital and Technology:

The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians.

But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

(i) Relaxation in Upper Limit of Foreign Investment:

The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this

limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalized and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbors etc.

Recent decision taken to further liberalize FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ's), some activities in telecom see tor etc.

(ii) Automatic Permission for Foreign Technology Agreement:

The New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government.

This delayed the import of technology and hampered modernization of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of upto Rs. 1 crore and royalty upto 5 percent on domestic sales and 8 per cent on exports.

(4) Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries.

Thus, besides obtaining a license they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects.

Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

(5) Greater Support to Small-Scale Industries:

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological up gradation. A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their upgradation and modernization the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector.

(6) Other Provisions:

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India.

It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management.

This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

Evaluation of the New Industrial Policy:

The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'Licence-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The industry is thus expected to grow faster under the new industrial policy 1991.

Unemployment Problem in India

Unemployment

India as a nation is faced with massive problem of unemployment. Unemployment can be defined as a state of worklessness for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness. Some features of unemployment have been identified as follows:

The incidence of unemployment is much higher in urban areas than in rural areas.

1. Unemployment rates for women are higher than those for men.
2. The incidence of unemployment among the educated is much higher than the overall unemployment.
3. There is greater unemployment in agricultural sector than in industrial and other major sectors.

Economists and social thinkers have classified unemployment into various types. Generally unemployment can be classified in two types:

(1) Voluntary unemployment

In this type of unemployment a person is out of job of his own desire doesn't work on the prevalent or prescribed wages. Either he wants higher wages or doesn't want to work at all. It is in fact social problem leading to social disorganization. Social problems and forces such as a revolution, a social upheaval, a class struggle, a financial or economic crisis a war between nations, mental illness, political corruption mounting unemployment and crime etc. threaten the smooth working of society. Social values are often regarded as the sustaining forces of society. They contribute to the strength and stability of social order. But due to rapid social change new values come up and some of the old values decline. At the same time, people are not is a position to reject the old completely and accept the new altogether. Here, conflict between the old and the new is the inevitable result which leads to the social disorganization in imposed situation. In economic terminology this situation is voluntary unemployment.

(2) In voluntary unemployment

In this type of situation the person who is unemployed has no say in the matter. It means that a person is separated from remunerative work and devoid of wages although he is capable of earning his wages and is also anxious to earn them. Forms and types of unemployment according to Hock are.

a. **Cyclical unemployment** - This is the result of the trade cycle which is a part of the capitalist system. In such a system, there is greater unemployment and when there is depression a large number of people are rendered unemployed. Since such an economic crisis is the result of trade cycle, the unemployment is a part of it.
b. **Sudden unemployment** - When at the place where workers have been employed there is some change, a large number of persons are unemployed. It all happens in the industries, trades and business where people are employed for a job and suddenly when the job has ended they are asked to go.
c. **Unemployment caused by failure of Industries** - In many cases, a business a factory or an industry has to close down. There may be various factors responsible for it there may be dispute amongst the partners, the business may give huge loss or the business may not turn out to be useful and so on.
d. **Unemployment caused by deterioration in Industry and business** - In various industries, trades or business, sometimes, there is deterioration. This deterioration may be due to various factors. In efficiency of the employers, keen competitions less profit etc. are some of the factors responsible for deterioration in the industry and the business.

e. **Seasonal unemployment** - Certain industries and traders engage workers for a particular season. When the season has ended the workers are rendered unemployed. Sugar industry is an example of this type of seasonal unemployment.

Problem of Poverty

Poverty in India is widespread, and a variety of methods have been proposed to measure it. The official measure of Indian government, before 2005, was based on food security and it was defined from per capita expenditure for a person to consume enough calories and be able to pay for associated essentials to survive. Since 2005, Indian government adopted the Tendulkar methodology which moved away from calorie anchor to a basket of goods and used rural, urban and regional minimum expenditure per capita necessary to survive.

The World Bank has similarly revised its definition and benchmarks to measure poverty since 1990, with $1.25 per day income on purchasing power parity basis as the definition in use from 2005 to 2013.[2] Some semi-economic and non-economic indices have also been proposed to measure poverty in India; for example, the Multi-dimensional Poverty Index placed 33% weight on number of years spent in school and education and 6.25% weight on financial condition of a person, in order to determine if that person is poor.

- Poverty is about not having enough money to meet basic needs including food, clothing and shelter. However, poverty is more, much more than just not having enough money. The world bank describes poverty as: "Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time."
- Poverty Line is drawn on the basis of Expenditure that is necessary to secure the Minimum Acceptable Living Standard for Work & Efficiency.

• Since, Food is the most Basic Requirement, thus, Poverty Line is drawn on the basis of a Minimum Necessary Nutritional Standard expressed in terms of Calories per Day.

In India, the Minimum Calories intake of a Person has been put at 2,400 in Rural Area &2,100 in Urban Areas.

• To convert this Calorie intake based Poverty Line into a Monetary Measure of Poverty, the Cost of Minimum Consumption Requirements of Food providing the minimum calories is calculated at prevailing Price.

• Thus, Government defined a Person with an Income of Less than Rs.672 (Rural) & Rs.859(Urban) per month as living below Poverty Line.

Two Ways Of Poverty

1) Relative Poverty 2) Absolute Poverty

1) Relative Poverty Relative Poverty refers to the Income or Asset Position of one Class or Group of People in comparison with the other Classes or Groups, or of one Individual vis-a-vis the others.

• The essential point here is that Poverty of One is Relative to the Richness of the other.• For Example, an Average Middle Class Personis Poor when compared to the Upper Middle Class Person, who in turn, may be poorer than the Richer Person and so on.

2)Absolute Poverty: It is associated with a Minimum Level of Living or Minimum Consumption Requirements of Food, Clothing, Housing, Health, etc.

All those People who fail to Secure Income or Assets to have access to even these Minimum Consumption Requirements are classified as 'Poor'.

Causes Of Poverty

- Caste System
- Heavy Pressure of Population
- Unemployment
- Illiteracy
- India's Economic Policy

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UNIT 3: INDUSTRIALIZATION

Industrialization- The process by which traditionally nonindustrial sectors (such as agriculture, education, health) of an economy become increasingly similar to the manufacturing sector of the economy. Sustained economic development based on factory production, division of labor, concentration of industries and population in certain geographical areas, and urbanization.

Growth of Iron and Steel Industry in India

We live essentially in an age of iron and steel. "Because of its hardness, strength and durability, because of the ease with which it can be cast and worked into any desired shape and because of its remarkable cheapness under modem methods of production, iron is the most important and widely used metal in the service of man".

Iron and steel were the harbinger of industrial revolution in late 18th and early 19th century. Today this industry has proved to be the harbinger of globalisation. It is one of the very few industries that have assumed a global character with developments in one region affecting the industry almost everywhere else; and India is no exception.

The proud machine civilization of modem age would not have existed without iron. The sturdy structure of modem industrial world i made of steel. Iron and steel is the basic or key industry and lays the foundation of a vibrant industrial economy.

Most of the subsidiary industries such as automobiles, locomotives, rail tracks, shipbuilding, machine building, bridges, dams and a host of other industrial and commercial activities depend upon iron and steel industry. No wonder, per capita consumption of iron and steel is one of the most significant measures of the level of industrialization and economic growth of a country.

Although Indians are known for their technique of smelting iron since early time, the first iron an steel unit on modem lines was established in 1830 at Porto Nova in Tamil Nadu. However it could not succeed and was closed down in 1866. The other efforts made during the second half of the 19th century also met with the same fate.

The real beginning of modem iron and steel industry was made in 1907 only when Tata Iron and Steel Company (TISCO) were set up at Jamshedpur (Sakchi at that time). The Indian Iron and Steel Company (IISCO) were set up in 1919 at Bumpur followed by the setting up of Mysore Steel Works at Bhadravati (now Visveswaraya Iron and Steel Works) in 1923.

Iron and steel Industry witnessed rapid growth after Independence. India produced 16.9 lakh tonnes of pig iron in. 1950-51. The development of iron and steel industry was envisaged during the first Five-Year Plan, but it was during the Second Five-Year Plan that the three integrated steel projects were started at Bhilai, Rourkela and Durgapur.

India is now the eighth largest producer of steel in the world. Recent developments have amply demonstrated the mettle of Indian steel industry to rise even further and become a major player in the world. However steel is known to be an industry witnessing periodic business cycles of upswings an downswings.

Steel Authority of India (SAIL) Established in 1973, SAIL is a government undertaking and is responsible for the management of steel plants at Bhilai, Durgapur, Rourkela, Bokaro and Bumpur and also the Alloy Steel Plant at Durgapur and Salem Steel Plant. The management of Indian Iron and Steel was taken over by Government on 14th July, 1976. SAIL also took over Maharashtra Elektrosmelt Limited, a mini steel plant, in January 1986. Visweswaraya Iron and Steel Limited were also taken over by SAIL in August 1989.

With the introduction of new liberalized industrial policy in 1991, some changes were visualised in the functioning of SAIL which had great impact on the performance of steel industry in the country. Over a period of five years it brought down its manpower by around 40,000 and substantially improved its techno-economic parameters to contain its cost of operation in spite of a steady rise in input prices.

Table 27.11 Progress of Iron and Steel Industry in India:

Year	Hotmetal (including Pig iron) in Million tones	Crude Steel (Million tones)	Semi-finished steel (main plants) Million tones	Finished steel (including secondary producers) in Million tonnes	Steel castings (Thousand tonnes)
1950-51	1.7	1.5	1.2	1.0	N.A.
1960-61	4.3	3.5	1.0	2.4	35
1970-71	7.0	6.1	0.9	4.6	62
1980-81	9.6	10.3	2.0	6.8	71.0
1990-91	12.2	N.A.	4.3	13.5	262.0
1996-97	18.8	23.8	N.A.	22.7	393.4
1997-98	19.2	24.7	N.A.	23.4	392.5
1998-99	18.2	23.1	N.A.	24.7	370.1
1999-00	N.A.	N.A.	N.A.	28.5	386.9

2000-01	N.A.	N.A.	N.A.	30.3	352.4
2001-02	N.A.	N.A.	N.A.	31.1	409.3
2002-03	N.A.	N.A.	N.A.	34.5	483.0
2003-04	N.A.	N.A.	N.A.	36.9	407.8

Centres of Production:

At present there are 10 primary integrated plants and a large number of decentralised scondary units known as mini steel plants. Besides, there are several rolling and re-rolling mills and foundries which manufacture different items of steel using pig iron and ingot steel. There are about 10,000 foundries, 95 per cent of which are concentrated in the western states of Maharashtra and Gujarat and in the southern state of Tamil Nadu.

Some of the major problems faced by Indian iron and steel industry are as follows:

1. Capital:

Iron and steel industry requires large capital investment which a developing country like India cannot afford.

Many of the public sector integrated steel plants have been established with the help of foreign aid.

2. Lack of Technology:

Throughout the 1960s and upto the oil crisis in mid-1970s, Indian steel industry was characterized by a high degree of technological efficiency. This technology was mainly from abroad. But during the following two decades after the oil crisis, steep hike in energy costs and escalation of costs of other inputs, reduced the margin of profit of the steel plants.

This resulted in lower levels of investment in technological developments. Consequently, the industry lost its technology edge and is now way behind the advanced countries in this regard. Material value productivity in India is still very low.

In Japan and Korea, less than 1.1 tonnes (and in several developed countries 1.05 tonnes) of crude steel is required to produce a tonne of saleable steel. In India, the average is still high at 1.2 tonnes. Improvement in the yield at each stage of production, particularly for value added products will be more important in the coming years.

3. Low Productivity:

The per capita labour productivity in India is at 90-100 tonnes which is one of the lowest in the world. The labour productivity in Japan, Korea and some other major steel producing countries is about 600-700 tonnes per man per year.

At Gallatin Steel a mini mill in the U.S. there are less than 300 employees to produce 1.2 million tonnes of hot rolled coils. A comparable facility in India employs 5,000 workers. Therefore, there is an urgent need to increase the productivity which requires retraining and redevelopment of the labour force.

4. Inefficiency of public sector units:

Most of the public sector units are plagued by inefficiency caused by heavy investment on social overheads, poor labour relations, inefficient management, underutilisation of capacity, etc. This hinders proper functioning of the steel plants and results in heavy losses.

5. Low potential utilization:

The potential utilization in iron and steel is very low. Rarely the potential utilisation exceeds 80 per cent. For example, Durgapur steel plant utilises only 50 per cent of its potential. This is caused by several factors, like strikes, lockouts, scarcity of raw materials, energy crisis, inefficient administration, etc.

6. Heavy demand:

Even at low per capita consumption rate, demand for iron and steel is increasing with each passing day and large quantities of iron and steel are to be imported for meeting the demands. Production has to be increased to save precious foreign exchange.

7. Shortage of metallurgical coal:

Although India has huge deposits of high grade iron ore, her coal reserves, especially high grade cooking coal for smelting iron are limited. Many steel plants are forced to import metallurgical coal. For example, steel plant at Vishakhapatnam has to import coal from Australia. Serious thought is now being given to replace imported coal by natural gas from Krishna-Godavari basin.

8. Inferior quality of products:

Lack of modern technological and capital inputs and weak infrastructural facilities leads to a process of steel making which is more time consuming, expensive and yields inferior variety of goods. Such a situation forces us to import better quality steel from abroad. Thus there is urgent need to improve the situation and take the country out of desperate position.

Cotton Textile Industry in India: Production, Growth and Development

Growth and Development:

India held world monopoly in the manufacturing of cotton textiles for about 3,000 years from about B.C. 1500 to A.D. 1500. In the middle ages, Indian cotton textile products were in great demand in the Eastern and European markets.

The muslins of Dhaka, chintzes of Masulipatnam, calicos of Calicut, baftas of Cambay and gold-wrought cotton piece goods of Burhanpur, Surat and Vadodara acquired a worldwide celebrity by virtue of their quality and design.

This industry could not survive in the face of strong competition from the modern mill industry of Britain which provided cheap and better goods as a result of Industrial Revolution in that country. Moreover, the British textile industry enjoyed political advantage at that time.

The first modem cotton textile mill was set up in 1818 at Fort Glaster near Kolkata. But this mill could not survive and had to be closed down. The firat successful modem cotton textile mill was established in Mumbai in 1854 by a local Parsi entrepreneur C.N. Dewar. Shahpur mill in 1861 and Calico mill in 1863 at Ahmedabad were other landmarks in the development of Indian cotton textile industry.

The real expansion of cotton textile industry took place in 1870's. By 1875-76 the number of mills rose to 47 of which over 60 per cent were located in Mumbai city alone. The industry continued to progress till the outbreak of the First World War in 1914. The total number of mills reached 271 providing employment to about 2.6 lakh persons.

The First World War, the Swadeshi Movement and the grant of fiscal protection favoured the growth of this industry at a rapid pace. Demand for cloth during the Second World War led to further progress of the industry. Consequently, the number of mills increased from 334 in 1926 to 389 in 1939 and 417 in 1945. Production of cloth also increased from 4,012 million yards in 1939-40 to 4,726 million yards in 1945-46.

The industry suffered a serious setback in 1947 when most of the long staple cotton growing areas went to Pakistan as a result of partition. However, most of the cotton mills remained in India. Under such circumstances, India faced a severe crisis of obtaining raw cotton.

The country had, therefore, to resort to large-scale imports of long staple cotton which was an extremely difficult task in view of the limited foreign exchange reserves. The only solution to this problem was to increase hectare-age and production of long staple cotton within the country. This goal was achieved to a great extent in the post partition era.

Present Position:

At present, cotton textile industry is largest organised modem industry of India. There has been a phenomenal growth of this industry during the last four decades. About 16 per cent of the industrial capital and over 20 per cent of the industrial labour of the country is engaged in this industry. The total employment in this industry is well over 15 million workers.

There are at present 1,719 textile mills in the country, out of which 188 mills are in public sector, 147 in cooperative sector and 1,384 in private sector. About three-fourths were spinning mills and the remaining one-fourth composite mills. Apart from the mill sector, there are several thousand small factories comprising 5 to 10 looms.

Some of them have just one loom. These are based on conventional handloom in the form of cottage industry and comprise decentralised sector of this industry. Table 27.4 shows that the constitution of decentralised sector is much more than the organised sector.

It has increased rapidly from a mere 19.31 per cent in 1950-51 to 58.96 per cent in 1980-81 and made a sudden jump to 87.95 per cent in 1990-91. It gradually improved during the first half of 1990s and stood at 94.63 per cent in 2003-04. (see Table 27.4)

Production:

Cotton cloth is produced in three different sectors viz., 1. Mills, 2. Power-looms and 3. Handlooms.

1. Mills:

The mill sector played a dominant role in cotton textile industry at the initial stage. But its importance was reduced drastically with the growth of powerlooms and handloom. The share of mill sector in cotton cloth production came down from 80.69 per cent in 1950-51 to only 5.37 per cent in 2003-04.

2. Powerlooms:

The decentralised powerloom sector plays a pivotal role in meeting the clothing needs of the country. The production of cloth as well as generation of employment has been rapidly increasing in powerloom sector. This sector not only contributes significantly to the cloth production in the country but also provides employment to millions of people.

The powerloom industry produces a wide variety of cloth with intricate designs. The powerloom sector accounts for about 63 per cent of the total cloth production in the country and contributes significantly to the export earnings.

The production of cloth as well as employment has been increasing in the powerloom sector. During 2002-03, the production of cloth in the decentralised powerloom sector was 18,281 million sq. metres while the employment generation was 4.23 million. The corresponding figures estimates for 2003- 04 were 17,071 million sq metre and 4.18 million respectively.

3. Handlooms:

The handloom sector provides employment to over 65 lakh persons engaged in weaving and allied activities. The production of handloom fabrics registered more than fifteen fold increase from 500 million sq metres in 1950-51 to 7,585 million sq metres in 2001-02. This sector constitutes nearly 14 per cent of the total cloth produced in the country and also contributes substantially to the export earnings.

Table 27.4 shows that the production of spun yam and cotton cloth has increased considerably during the 53 years from 1950-51 to 2003-04. The production of spun yarn registered more than fourfold increase from 533 million kg in 1950-51 to 2,121 million kg in 2003-04.

Although the total production of cotton cloth increased considerably, the share of mill sector has been drastically reduced. This is an indication of our efforts to decentralise the industry and create greater employment opportunities.

There are about 40 lakh handlooms and about 5 lakh powerlooms in the decentralised sector. Although they are widely distributed throughout the country, states of Tamil Nadu, Uttar Pradesh, Assam and Manipur account for nearly 50 per cent of the production capacity.

The rest are scattered in Nagaland, West Bengal, Madhya Pradesh, Andhra Pradesh. Maharashtra, Kerala, Rajasthan, Haryana and Jammu and Kashmir. Table 27.5 shows that power looms contribute an overwhelmingly large percentage of production of fabrics.

Table 27.5 Production of Cotton Cloth (Mill Cloth) in India, 2002-03:

State/Union Territory	Production in Sq Mtr	Percentage of all India production
1. Maharashtra	3,82,257	39.38
2. Gujarat	3,21,775	33.14
3. Tamil Nadu	64544	6.69
4. Punjab	55,784	5.75
5. Madhya Pradesh	47305	4.87
6. Uttar Pradesh	32386	334
7. Rajasthan	28384	2.92
8. Pondicherry	24357	2.51
9. Karnataka	7,222	0.74
10. Kerala	6342	0.66
Total	9,70,756	100.00

Locational Factors:

Several factors, like availability of raw cotton, market, transport, etc. play a key role in the localisation of cotton textile industry. The significance of raw cotton is evident from the fact that 80 per cent of the industry is coterminous with the cotton growing tracts of the country.

Some of the important centres such as Ahmedabad, Solapur, Nagpur, Coimbatore and Indore are located in the areas of large scale cotton cultivation.

Mumbai is also not far away from the cotton producing areas of Maharashtra and Gujarat which have contributed a good deal in the localisation and growth of cotton textile industry here. It is equally important to note that cotton is a pure raw material, in the sense that it does not lose much of its weight in the process of manufacturing and the slight loss in weight is more than compensated by the use of sizing materials.

There is not much of difference between the cost of transporting raw cotton and finished cloth. Both can be transported with equal ease and without adding much to the total cost of production. Hence, this industry normally tends to be located at such centres which have favourable transport facilities with respect to market. In other words, it is primarily a market oriented industry.

With tropical and sub-tropical climate, all parts of India provide vast market potential for cotton textile industry. West Bengal, Bihar, Uttar Pradesh, Kerala and Orissa do not grow cotton and still have large number of big centres where cotton textile industry has flourished well.

Thus although in earlier stages of industrialisation, cotton textile manufacturing was concentrated in Mumbai, it has witnessed great spatial spread and now covers almost the entire country. Since, it was a traditional cottage industry, cheap and skilled labour was readily available. The most notable feature of the distribution of the industry is that even within a state, the industry is localised within particular areas and regions, almost to the complete exclusion of others.

Dispersal of industry from the old nuclei started after 1921 with railway lines penetrating into the peninsular region. New centres like Coimbatore, Madurai, Bangalore, Nagpur, Indore, Solapur and Vadodara were favourably located in respect to raw material, market and labour than places of original locations. This industry also reached some places with some additional advantages, such as nearness to coal (Nagpur), financial facilities (Kanpur) and wide market with port facilities (Kolkata).

Dispersal of cotton textile industry was further boosted with the development of hydroelectricity. The growth of this industry in Coimbatore, Madurai and Tirunelveli is largely due to the availability of hydroelectricity from Pykara dam. The industry also tended to shift from areas of high labour cost to those with low labour cost. The labour cost factor played a crucial role in establishing this industry at Madurai, Turunelveli, and Coimbatore.

Distribution:

Although cotton textile mills are located in over 80 towns and cities of India, yet its larger concentration is found in Maharashtra, Gujarat, West Bengal and Uttar Pradesh. Table 27.5 and Figure 27.1 show the spatial distribution of cotton textile industry in India.

Problems of Cotton Textile Industry:

Although cotton textile is one of the most important industries of India, it suffers from many problems. Some of the burning problems are briefly described as under:

1. Scarcity of Raw Cotton:

Indian cotton textile industry suffered a lot as a result of partition because most of the long staple cotton growing areas went to Pakistan. Although much headway has been made to improve the production of raw cotton, its supply has always fallen short of the demand. Consequently, much of the long staple cotton requirements are met by resorting to imports.

2. Obsolete Machinery:

Most of the textile mills are old with obsolete machinery. This results in low productivity and inferior quality. In the developed countries, the textile machinery installed even 10-15 years ago has become outdated and obsolete, whereas in India about 60-75 per cent machinery is 25-30 years old.

Only 18-20 per cent of the looms in India are automatic whereas percentage of such looms ranges from cent per cent in Hong Kong and the USA., 99 per cent in Canada, 92 per cent in Sweden, 83 per cent in Norway, 76 per cent in Denmark, 70 per cent in Australia, 60 per cent in Pakistan and 45 per cent in China.

3. Erratic Power Supply:

Power supply to most cotton textile mills is erratic and inadequate which adversely affects the production.

4. Low Productivity of Labour:

Labour productivity in India is extremely low as compared to some of the advanced countries. On an average a worker in India handles about 2 looms as compared to 30 looms in Japan and 60 looms in the USA. If the productivity of an American worker is taken as 100, the corresponding figure is 51 for U.K. 33 for Japan and only 13 for India.

5. Strikes:

Labour strikes are common in the industrial sector but cotton textile industry suffers a lot due to frequent strikes by a labour force. The long drawn strike in 1980 dealt a severe below to the organised sector. It took almost 23 years for the Government to realise this and introduce legislation for encouraging the organised sector.

6. Stiff Competition:

Indian cotton mill industry has to face stiff competition from powerloom and handloom sector, synthetic fibres and from products of other countries.

7. Sick Mills:

The above factors acting singly or in association with one another have resulted in many sick mills. As many as 177 mills have been declared as sick mills. The National Textile Corporation set up in 1975 has been striving to avoid sick mills and has taken over the administration of 125 sick mills. What is alarming is 483 mills have already been closed.

Cement Industries

Cement is indispensible for building and construction work and cement industry is considered to be an important infrastructure core industry. It is one of the most advanced industries of India. In a developing country like India, the cement industry can play a significant role in the overall economic growth.

The per capita consumption of cement is taken as one of the important indicators of well being of the people. The average per capita consumption of cement in India was 110 kg in 2003-04 against the world average of 240 kg. This is much lower than some of the advanced countries and there is vast scope for improving the situation. India is currently on a fast track of economic growth and if, the present growth trends continue, the per capita consumption is expected to touch 130 kg in 2010 even in the face of fast growing population.

Locational Factors:

Manufacturing of cement requires heavy, low value and weight loosing materials and is primarily a raw material oriented industry. Limestone is the main raw material and comprises 60-65 per cent of the total product. On an average 1.5 tonnes of limestone are required to produce one tonne of cement. Hence, the location of a cement plant is based on the limestone deposits.

The other raw materials used are sea shells, slag from steel plants and slag from fertilizer plants and these raw materials influence the localisation of cement industry in their own way. Silica (20-25%) and alumina (5-12%) are also important ingredients. Gypsum is necessary to regulate the setting time of cement. Power is used in raw material grinding, clinkerisation of limestone in the kiln operation and clinker grinding along with gypsum to form cement.

The older plants required 120 to 130 units per tonne of cement produced. Modern energy efficient plants consume only 80 to 90 units per tonne. Coal is another major input along with electricity and forms 40 per cent of the total cost. Coal is used not only as fuel in the kiln but also to burn the limestone.

The ash of the burnt coal combines with the limestone to form clinkei. On an average 250 kg of coal is required to produce one tonne of cement. The quantum of other materials required to produce one tonne of cement are 4 kg of gypsum, 0.4 kg of bauxite and 0.2 kg of clay.

Cement and its raw materials are low value bulk materials and the transportation over long distance by rails and roads involves huge costs. Some of the transportation cost of transporting limestone is reduced by beneficiating this mineral at the quarry heads.

The transportation cost is also reduced if the manufacturing plant is located near the market. In fact ready market is the pre-requisite for the proper growth of an industry, producing heavy commodity with low specific cost like cement.

It is obvious from the above discussion that availability of raw materials, bulk transport facilities at reasonably low cost and market are the three main localisational factors, in that order, which favour the growth of cement industry in India.

Growth of Cement Industry:

The first attempt to manufacture cement in India was made in 1904 when a mill based on sea shells as a source of limestone was established at Chennai. But this attempt proved abortive and a really successful attempt was made in 1912-13 when the Indian Cement Co. Ltd. set up a plant at Porbandar.

World War I gave impetus to cement industry in India. Consequently, Katni Cement and Industrial Co. Ltd. at Katni (M.P.) started production in 1915 and Killick Nixon's Bundi Portland Cement Co. at Lakheri (Rajasthan) commenced in 1916. A number of companies came into existence to make use of the post war boom. Six new factories at Dwarka (Gujarat), Japla

(Bihar), Banmore, Mehgaon, Kymore (M.P.) and Shahabad (Karnataka) were erected by 1922-23.

Cement Production virtually took off the ground only after tariff protection was granted to this industry in 1924. A turning point came in 1934 when 10 out of 11 existing companies merged into the Associated Cement Co. Ltd. (ACC). The Dalmia Cement Group was also formed in 1937. This group set up factories at Dalmianagar (Bihar), Dalmiapuram (Tamil Nadu) and Dalmia (Charkhi) Dadri in Haryana.

By 1947, there were 18 cement factories with a capacity of 21.15 lakh tonnes and production of 20.16 lakh tonnes. Rapid economic progress associated with massive building programmes during the plan period accelerated the demand for cement and provided stimulus to this industry. India achieved self sufficiency in cement only in 1980s during the short five year period of partial decontrol.

Prior to that Indian cement industry had seen days of total controls, partial decontrol and imports. This industry was totally decontrolled in March, 1989 and it grew in leaps and bounds in 1990s. Today, in terms of quality, productivity and efficiency, the industry is second to none in the world. Its technology is state- of-the-art, its cost of production is one of the lowest in the world and its productivity is easily one of the highest.

Currently, the Indian cement industry is the second largest in the world after that of China. With a turnover of around Rs. 30,000 crore, the industry is the second biggest contributor to the exchequer. The Central government gets about Rs. 4,000 crore from excise duty and various state governments another Rs. 4,000 crore from sales tax yet another Rs. 2,000 crore comes from royalties, octroi and cesses.

The industry provides direct employment to 1.5 lakh persons and indirect employment to 1.2 million persons. As on 30 April 2004 there were 16 large cement plants with an installed capacity of 144.98 million tonnes. Apart from these, there are 300 mini and tiny plants spread all over the country. The estimated capacity of mini plants is about 11 million tonnes per annum. The mini plants play a supplementary role.

The concept of mini plants was accepted by the Government in 1979 to exploit smaller deposits of limestone scattered in remote and inaccessible areas. This concept was supported by incentives like 50 per cent reduction in excise duty. The main advantage of mini cement plants is

that they provide employment opportunities to rural and remote areas and make cement easily available there.

Further, they help in dispersal of production capacity and reduce strain on transportation infrastructure. Over 60 companies are engaged in the production of cement. The industry has been going through a period of re-alignment or consolidated since early 1990s but still has a long way to go in this regard. The late 1990s also saw the entry of a couple of multinational through the acquisition route.

The production of cement has increased considerably during the plan period. It increased from a low of 2.7 million tonnes in 1950-51 to 8.0 million tonnes in 1960-61, 1970-71, 48.8 million tonnes in 1999-91 and 123.4 million tonnes in 2003-04

Given the enormous need for infrastructure and housing, which require large quantities of cement as a basic building material, the prospects of industry are bright. The Working Group on Cement Industry for the formulation of Tenth Five Year Plan and other studies on global competitiveness of the Indian cement industry highlight constraints such as high cost of power, high freight cost, inadequate infrastructure and poor quality of coal. In order to utilize the excess production capacity available with the cement industry, the Government has identified the following thrust areas for increasing demand:

i. Further push to housing development programmes

ii. Promotion of concrete highways. Proposed construction of 1,700 km of concrete roads under Prime Minister's Golden Quadrilateral scheme is likely to increase demand for cement to great extent.

iii. Use of ready-mix concrete in large infrastructure projects.

iv. Construction of concrete roads in rural areas under Prime Minister's Gram Sadak Yojana.

The Indian Cement industry today produces 11 varieties of cement including ordinary Portland cement (71%), Portland pozzolana cement (18%) and Portland blast furnace slag cement (10%). The balance one per cent is of all special cements.

Sugar Industry

Sugar can be produced from sugarcane, sugar-beet or any other crop having sugar content. But in India, sugarcane is the main source of sugar. At present, this is the second largest agro-based industry of India after cotton textile industry.

India is the world's largest producer of sugarcane and second largest producer of sugar after Cuba. But India becomes the largest producer if gur and khandsari are also included. This industry involves a total capital investment of Rs. 1,250 crore and provides employment to 2.86 lakh workers. In addition, 2.50 crore sugarcane growers also get benefit from this industry.

Growth and Development:

India has a long tradition of manufacturing sugar. References of sugar making by the Indians are found even in the Atharva Veda. India is rightly called the homeland of sugar. But in ancient times, only gur and khandsari were made and modem sugar industry came on the Indian scene only in the middle of the 19th century, when it was introduced by the Dutch in North Bihar in about 1840.

Unfortunately, this attempt could not succeed. The first successful attempt was made by the indigo planters at the initiative of Britishers in 1903 when Vacuum pan mills were started at Pursa, Pratabpur, Barachakia and Marhowrah and Rose in north-eastern U.P. and the adjoining Bihar.

This happened when demand for indigo ceased to exist due to the introduction of synthetic blue in the market. In the early years of the 20th century, the industry grew rather sluggishly and there were only 18 mills in 1920-21 and 29 mills in 1930-31. The industry got a great fillip after the fiscal protection in 1931 and the number of mills rose to 137 in 1936-37. The production also shot up from 1.58 lakh tonnes to 9.19 lakh tonnes during the same period.

The industry passed through an uncertain phase during and after the World War II and some stability was experienced only after 1950-51. There were 139 mills producing 11.34 lakh tonnes of sugar in 1950-51. After that, the plan period started and the industry made rapid strides. In the year 1994-95, there were 420 mills producing 148 lakh tonnes of sugar.

Problems of Sugar Industry:

Sugar industry in India is plagued with several serious and complicated problems which call for immediate attention and rational solutions. Some of the burning problems are briefly described as under:

1. Low Yield of Sugarcane:

Although India has the largest area under sugarcane cultivation, the yield per hectare is extremely low as compared to some of the major sugarcane producing countries of the world. For example, India's yield is only 64.5 tonnes/hectare as compared to 90 tonnes in Java and 121 tonnes in Hawaii.

This leads to low overall production and results in short supply of sugarcane to sugar mills. Efforts are being made to solve this problem through the introduction of high yielding, early maturing, frost resistant and high sucrose content varieties of sugarcane as well as by controlling diseases and pests which are harmful for sugarcane.

2. Short crushing season:

Manufacturing of sugar is a seasonal phenomena with a short crushing season varying normally from 4 to 7 months in a year. The mills and its workers remain idle during the remaining period of the year, thus creating financial problems for the industry as a whole. One possible method to increase the crushing season is to sow and harvest sugarcane at proper intervals in different areas adjoining the sugar mill. This will increase the duration of supply of sugarcane to sugar mills.

3. Fluctuating Production Trends:

Sugarcane has to compete with several other food and cash crops like cotton, oil seeds, rice, etc. Consequently, the land available to sugarcane cultivation is not the same and the total production of sugarcane fluctuates. This affects the supply of sugarcane to the mills and the production of sugar also varies from year to year.

4. Low rate of recovery:

It is clear from Table 27.29 that the average rate of recovery in India is less than ten per cent which is quite low as compared to other major sugar producing countries. For example recovery rate is as high as 14-16 per cent in Java, Hawaii and Australia.

5. High cost of Production:

High cost of sugarcane, inefficient technology, uneconomic process of production and heavy excise duty result in high cost of manufacturing. The production cost of sugar in India is one of the highest in the world. Intense research is required to increase the sugarcane production in the agricultural field and to introduce new technology of production efficiency in the sugar mills. Production cost can also be reduced through proper utilisation of by- products of the industry.

For example, bagasse can be used for manufacturing paper pulp, insulating board, plastic, carbon cortex etc. Molasses comprise another important by-product which can be gainfully used for the manufacture of power alcohol.

This, in its turn, is useful in manufacturing DDT, acetate rayon, polythene, synthetic rubber, plastics, toilet preparations, etc. It can also be utilised for conversion into edible molasses and cattle feed. Press-mud can be used for extracting wax.

6. Small and uneconomic size of mills:

Most of the sugar mills in India are of small size with a capacity of 1,000 to 1,500 tonnes per day. This makes large scale production uneconomic. Many of the mills are economically not viable.

7. Old and obsolete machinery:

Most of the machinery used in Indian sugar mills, particularly those of Uttar Pradesh and Bihar is old and obsolete, being 50-60 years old and needs rehabilitation. But low margin of profit prevents several mill owners from replacing the old machinery by the new one.

8. Competition with Khandsari and Gur:

Khandsari and gur have been manufactured in rural India much before the advent of sugar industry in the organised sector. Since khandsari industry is free from excise duty, it can offer higher prices of cane to the cane growers.

Further, cane growers themselves use cane for manufacturing gur and save on labour cost which is not possible in sugar industry. It is estimated that about 60 per cent of the cane grown in India is used for making khandsari and gur and the organised sugar industry is deprived of sufficient supply of this basic raw material.

9. Regional imbalances in distribution:

Over half of sugar mills are located in Maharashtra and Uttar Pradesh and about 60 per cent of the production comes from these two states. On the other hand, there are several states in the north-east, Jammu and Kashmir and Orissa where there is no appreciable growth of this industry. This leads to regional imbalances which have their own implications.

10. Low per capita consumption:

The per capita annual consumption of sugar in India is only 16.3 kg as against 48.8 kg in the USA. 53.6 kg in U.K., 57.1 kg in Australia and 78.2 kg in Cuba and the world average of about 21.1 kg. This result in low market demand and creates problems of sale of sugar.

Petroleum Industries

In 2007-08, India's five largest companies in terms of sales were oil companies. Four out of five were owned by the government. The sales of the sixth – Essar Oil – were negligible. Reliance's share of sales was 17 per cent of all the oil companies' sales, but 60 per cent of its output was exported. So it does not require much analysis to conclude that the Indian oil industry is an oligopoly, and that it is dominated by government firms. The retail market for petrol and diesel is almost entirely a government monopoly. This monopoly also affects exploration and production, for as we have seen, a number of companies that have struck oil or gas cannot find a domestic market because of the government's monopoly of distribution.

India's oil companies'	**Revenues**	**2007-08**
Company	**Rs billion**	**Per cent**
Indian Oil Corporation	2015	34.7
Reliance Industries	1112	19.2
Bharat Petroleum	972	16.8
Hindustan Petroleum	939	16.2
Oil and Natural Gas Corporation	755	13
Essar Oil	6	0.1
Total	**5799**	**100**
Source: Company annual accounts.		

The domestic market is close to a monopoly. All hydrocarbon products are tradeable, although their transport costs vary greatly – highest for gas, lower for crude, and the more valuable a refined product, the lower proportionally are transport costs. So the most expeditious way of introducing competition is freeing imports. There cannot be competition in exploration and production if refining and distribution are concentrated; and there cannot be competition in

refining unless crude is freely importable. Hence the first condition for a more competitive market is absence of restrictions on foreign trade.

The next condition is tax parity of imports and domestic production. This means that whatever domestic taxes are levied should be applicable to imports as well. Import duties may be levied; but unless there is a reason to protect exploration and production beyond the size to which they would grow without protection, crude imports should be duty-free, so that there is maximum incentive to invest in refining. There will inevitably be taxation of refined products, since some of them are considered inputs into luxuries (e g, aviation fuel and petrol), and are in fact sources of prolific revenue. Duties on domestic production must be matched by equal import duties, so that there is no discrimination in favour of exports.

Problems faced by the India petroleum industry:

- The manufacturing units mostly use obsolete format of technology and are not able produce optimally
- There is a necessity for the modernization of equipments
- Excise duty on synthetic fiber should be rationalized
- Prevention of reservation on Small Scale Units
- Plastic waste to be recycled and the littering habits to be discouraged
- India requires advantage on feedstock, so the import cost has to be brought down
- The industry should have access to the primary amenities of infrastructure

Industrial policy

The policies of a nation that help guide the total strategic effort of the country. The policies influence the development of different sectors and create a stronger portfolio of national industry.

Small scale industries-Problems and policy

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition.

These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

Objectives of Small Scale Industries:

1. To create more employment opportunities with less investment.

2. To remove economic backwardness of rural and less developed regions of the economy.

3. To reduce regional imbalances.

4. To mobilise and ensure optimum utilisation of unexploited resources of the country.

5. To improve standard of living of people.

6. To ensure equitable distribution of income and wealth.

7. To solve unemployment problem.

8. To attain self-reliance.

9. To adopt latest technology aimed at producing better quality products at lower costs.

Major problems faced by the small scale industries are :

(1) Finance

(2) Raw Material

(3) Idle Capacity

(4) Technology

(5) Marketing

(6) Infrastructure

(7) Under Utilization of Capacity

(8) Project Planning

(1) Finance:

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function proper y in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

(2) Raw Material:

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect t e functioning of these units

(3) Idle Capacity:

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(4) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

(5) Marketing:

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

(6) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas.

Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts

Regional Imbalances

In a developing country like India some factors like geographical location, inadequate economic overheads like transport, labour, technology, etc., play a dominant role in the disparity of development. The spatial distribution of industries in India still reflects the strong colonial legacy of the British period.

The land revenue system introduced by the British also accelerated rural poverty. Unlike the developed countries of the West, India has been unable to overcome the natural handicaps of mountainous terrain like the Himalayan belt and rugged plateau regions which have remained underdeveloped so far.

In independent India, the planning mechanism also accentuated disparity by strongly favouring already developed states. The Green Revolution started in the late 1960s, was successful only in Punjab, Haryana and western Uttar Pradesh, resulting in economic disparity among states and even within states. The ad hoc approach of the government in setting up industries in the backward regions of Bihar and Orissa, for instance, failed to generate a spillover effect in the rest of the region.

Illiteracy, corruption, and lack of political vision also intensified backwardness and disparity.

Most of the government schemes suffer from a leakage of resources, as a result of which the funds allocated by the government spread thinly at the grassroot level. This has resulted in the failure of government-sponsored schemes. The backwardness of vast regions in the country remain unaltered.

The strategy of doling out money to states as part of the yearly plan allotment has resulted in an attitude of dependence among the states, the less developed states in particular. The subsidy given to states so far has not been channelised for further resource development or forward linkages.

Moreover, most of the area development programmes stressing on a few well-demarcated areas—the drought-prone, hilly, and tribal dominated—virtually ignore the backward areas which do not to fall in the above categories.

Policy Measures to Remove Economic Disparity:

The Planning Commission has three measures- (i) transfer of financial resources from the Centre to the backward states; (ii) special area development programmes for backward areas; and (iii) measures to encourage private investment in backward areas.

The incentives offered by the government are as follows:

(a) Income tax concessions

(b) Central investment subsidy scheme, and

(c) Transport subsidy scheme.

The state governments also offer few measures such as providing water and power on no-profit-no-loss basis, interest-free loans on sales tax dues, exemption from octroi duties, exemption from property taxes, etc. Besides, major financial institutions such as IDBI, IFCI, ICICI offer concessional finance for industrial projects.

The Ninth Plan suggests that public investment in building of infrastructure be made to favour poorer states, and that all states should cooperate and formulate a public policy and action acceptable to all states.

Parallel Economy

Parallel economy, based on the black money or unaccounted money, is a big menace to the Indian economy. It is also a cause of big loss in the tax-revenues for the government. As such, it needs to be curbed. Its elimination will benefit the economy in more than one way.

In a general way, we can define black economy as the money that is generated by activities that are kept secret, in the sense that these are not reported to the authorities. As such, this money is also not accounted to (he fiscal authorities i.e., taxes are not paid on this money.

An estimate by Suraj B. Gupta had put the size of black money at over 50 per cent of GDP (at factor cost) in 1987-88. It is also stated that annual rate of growth of black economy is higher than the annual growth rate of GDP.

According to Global Financial Integrity Study of 2009, $ 1.4 trillion belongs to Indians were parked in safe havens abroad. $ 1.4 trillion is equivalent to Rs. 70 lakh crore, more than India's national income of around Rs. 50 lakh crore.

A statement from the Swiss Central Bank declared that Indians have $2.5 billion deposits in various Swiss Banks. It is suspected that the deposits of Indians in tax havens are mostly being withdrawn and shifted to a third country; making it difficult for the government to gather any further details once the accounts are closed.

Harmful Effects of Parallel Economy:

The circulation of black money has adversely affected the economy in several ways. First, is the misdirection of precious national resources? A part of black money is kept in a form that contributes nothing/little to productive activities. Again, much around half to two third is squandered away on ostentatious consumption of goods and services.

Second, it has enormously worsened the income distribution, and has thereby undermined the fabric of the society.

Third, the existence of a big-sized unreported segment of the economy is a big handicap in making a correct analysis and formulation of right policies for it. Nor. it is possible to monitor the development in the economy with precision.

Fourth, the black money has eroded the social values of the society. The undeclared income is 'earned' by illegitimate ways. This is spent in undesirable and vulgar manner.

Indian Economy & Foreign Trade

The Meaning and Definition of Foreign Trade or International Trade

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot

produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Significance of Foreign trade in Indian economy

Foreign trade has got an important place in the economic development of a country. What is the importance of foreign trade for economic development of country is stated below:

Firstly, foreign trade helps to produce those commodities which have a comparative cheaper cost than others. It results in less cost of production in producting a commodity. If all the countries adopt this procedure to produce these goods in. which they have less comparative cost, it will lead to availability of goods at a lower price.

Secondly, foreign trade increases the scope of market because of domestic demand and foreign demand for the product. So there is mass production. If the production of goods increases, average cost declines and price of goods declines.

Thirdly, foreign trade helps the people to get different varieties of goods both in quantities terms and qualitative terms.

Fourthly, foreign trade helps a developing country like India in its economic development. Iron and steel industry, has been established due to stored iron-ore and coal. But for the establishment of this type industry, we have to import technical knowledge from foreign countries. Had there been no foreign trade, then it would not have been only difficult but also too expensive.

Without foreign trade, it is not possible to fulfill the demand for petroleum products and it will retard the economic development of our country. There is also scarcity of consumer goods due to natural calamities or due to any other reason. During the time scarcity of consumer goods, we import these goods from foreign countries and keep prices stable which help people to get their commodities.

Due to all these above reasons, foreign trade has got an important place in every country.

Balance of Trade (BOT)

In today's world, all countries import some goods and services from other countries, and they also export certain other goods and services which are surplus in their country.

The difference between the value of goods and services exported out of a country and the value of goods and services imported into the country.

If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports.

The balance is said to be favorable when the value of the exports exceeded that of the imports (i.e. exports exceed imports), and unfavorable when the value of the imports exceeded that of the exports (i.e. imports exceed exports).

Balance of Trade

- Factors that can affect the balance of trade include:
- The cost of production (land, labour, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;
- The cost and availability of raw materials, intermediate goods and other inputs;
- Exchange rate movements;
- Multilateral, bilateral and unilateral taxes or restrictions on trade;
- Non-tariff barriers such as environmental, health or safety standards;
- The availability of adequate foreign exchange with which to pay for imports; and
- Prices of goods manufactured at home (influenced by the responsiveness of supply)

Balance of Payment

Balance of Payment is a system of recording all the economic transactions of a country, with the rest of the world over a period, say one year.

Typically, the transanctions included in BoP are country's exports and imports of goods, services, financial capital, and financial transfers. Thus, in nut shell we can say, the BoP accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned.

To understand the same better, we can conclude : -

· The balance of payments (BOP) is an accounting of a country's international transactions for a particular time period.

- Any transaction that causes money to flow into a country is a credit to its BOP account, and any transaction that causes money to flow out is a debit.
- The BOP includes the current account, which mainly measures the flows of goods and services; the capital account, which consists of capital transfers and the acquisition and disposal of non-produced, non-financial assets; and the financial account, which records investment flows.

The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports.

BOP is said to be favorable balance of payments, when more payments are coming in than going out, and will be unfavourable when less payments are coming in than what is going out.

The Balance of Payments Divided:

The BOP is divided into three main categories: (a) the current account,(b) the capital account and (c) financial account. Within these three categories are sub-divisions, each of which accounts for a different type of international monetary transaction.

The differences between balance of trade (BOT) and balance of payment (BOP) are as follows:

Balance of Trade (BOT)
i. It records only merchandise (i.e., goods) transactions.

ii. It does not record transactions of capital nature.

iii. It is a part of current account of BOP.

iv. It may be favourable, unfavourable or in equilibrium.

v. Defect in BOT cannot be met by BOP

vi. It is not true indicator of economic relations or economic prosperity of a country.

Balance of Payment (BOP)
(i) It records transactions relating to both goods and services.

(ii) It records transactions of capital nature.

(iii) It includes balance of trade, balance of services, balance of unilateral transfers and balance of capital transactions.

(iv) It always remains in balance in the sense that receipt side is always made to be equal to payment side.

(v) Defect in BOP can be met through BOT.

(vi) It is true indicator of economic performance of an economy.

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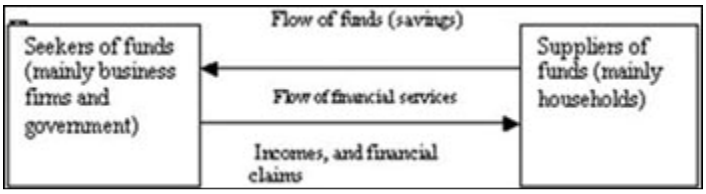
UNIT 4 INDIAN FINANCE SYSTEM

Introduction:

Economic growth and development of any country depends upon a well-knit financial system. Financial system comprises a set of sub-systems of financial institutions financial markets, financial instruments and services which help in the formation of capital. Thus a financial system provides a mechanism by which savings are transformed into investments and it can be said that financial system play an significant role in economic growth of the country by mobilizing surplus funds and utilizing them effectively for productive purpose.

The financial system is characterized by the presence of integrated, organized and regulated financial markets, and institutions that meet the short term and long term financial needs of both the household and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community. They operate in close combination with each other.



Financial System

The word "system", in the term "financial system", implies a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance-the three terms are intimately related yet are somewhat different from each other. Indian financial system consists of financial market, financial instruments and financial intermediation

Role/ Functions of Financial System:

* It serves as a link between savers and investors. It helps in utilizing the mobilized savings of scattered savers in more efficient and effective manner. It channelizes flow of saving into productive investment.

* It assists in the selection of the projects to be financed and also reviews the performance of such projects periodically.

* It provides payment mechanism for exchange of goods and services.

* It provides a mechanism for the transfer of resources across geographic boundaries.

* It provides a mechanism for managing and controlling the risk involved in mobilizing savings and allocating credit.

* It promotes the process of capital formation by bringing together the supply of saving and the demand for investible funds.

* It helps in lowering the cost of transaction and increase returns. Reduce cost motives people to save more.

* It provides you detailed information to the operators/ players in the market such as individuals, business houses, Governments etc.

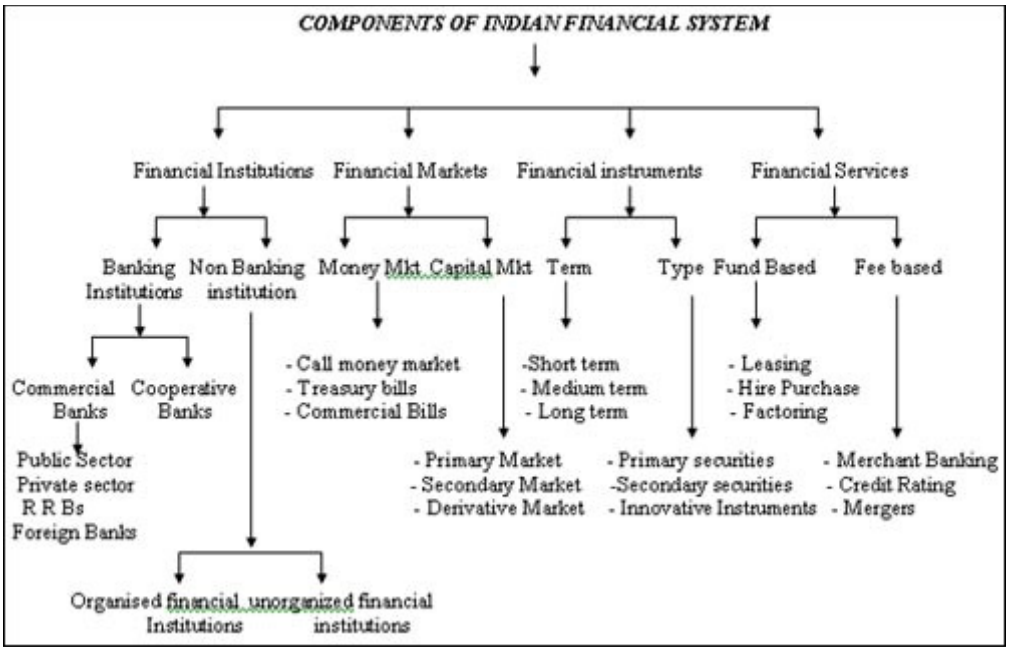
Components/ Constituents of Indian Financial system:

1. Financial institutions

2. Financial Markets

3. Financial Instruments/Assets/Securities

4. Financial Services.



Taxation structure

Main aspects/ features of India's Tax Structure:

(1) **Increasing importance of tax revenue:**

The tax revenue collected both by the Central and state Governments have increased from Rs 460 crore In 1951-52 to Rs 10,17,107 crore in 2008-09 registering an average growth of 13.9 per cent (over the 59 years period). There has thus been a significant increase in tax revenue. However, looked at another way, the tax revenue, which formed 88.6 per cent of-the total revenue receipts in 1951-52 declined to 84.1 per cent in 2008-09. Two possible inferences that can be drawn from these figures are:

(a) The Central and State governments have been relying less on tax revenue to finance their expenditure; or

(b) Revenue from non-tax sources has been increasing at a faster rate.

(2) **Tax revenue as a percentage of national income:**

The total tax revenue as a percentage of GDP has increased from 6.7 per cent in 1950-51 to 19.2 per cent in 2008-09. Although this is a good growth, this can be contrasted to the tax GDP ratio of developed countries, which ranges between 25 and 45 per cent.

Again, while it is likely to give the impression that our tax effort is relatively low, it should not be ignored that in a low-income country like India, a tax GDP ratio of about 20 per cent imposes quite a heavy burden on the majority of population.

(3) Structure of Taxes:

These are classified into two types, vis.

(i) Direct taxes and

(ii) Indirect taxes.

Direct taxes include taxes on income and property, whereas indirect taxes cover taxes on commodities and services. Important direct taxes are income tax, corporate tax and wealth tax. Important examples of indirect tax are VAT, service tax, excise duties, import duties, etc. Over the years, India's tax structure had come to rely more on indirect taxation.

The underlying rationale was that since it is difficult to reach all the individuals, the alternative of pursuing a broad based indirect tax is preferable. However, following measures initiated in the

direction of rationalization and simplification of the tax structure, there has been a decline in the proportion of indirect taxes in the country. The trend has revealed that lower tax rates are compatible with higher tax realization, given better tax administration and compliance.

(4) **Shift in Relative Importance of Taxes:**

As a consequence of the fact that indirect taxation had been increasing till the onset of 1990s, there occurred a shift in the relative importance of different taxes. For instance, corporate and income taxes which were the major source of the Union revenue during early-1950s, yielded place to excise duties and customs duties.

Similarly, in the State tax structure, sales tax replaced land revenue as the major source of state revenue. The increasing importance of excise revenue and sales tax reflected the favourable changes in the economy following the progress on industrialization and export promotion fronts.

Other contributory factors for the relative shift in tax structure are:

(i) The rise in domestic production and prices and

(ii) Extension of the tax coverage.

While these developments took place up to the 198Gs, with the onset of the reform in the 1990s, the relative importance of' different taxes have been undergoing changes once again. For instance, the significance of personal income tax and corporate tax have been on the rise, whereas that of the customs and excise duties are on the decline.

(5) **Progressive Tax Rate Structure:**

The tax structure has been designed in such a manner that all relevant ability indices are considered. In particular, the direct tax structure has been made progressive by ensuring that as the base grows the yield will also increase.

There has, therefore, been a gradual move towards presumptive methods of taxation in which factors like:

(i) Emergence of a service oriented economy,

(ii) Proliferation of small businesses,

(iii) Rapid industrialization,

(iv) Increases in the number of taxpayers and, above all,

(v) The need to device ways and means, which could ensure revenue flows without much strain on the administrative set up are given due recognition. In the field on indirect taxes, on the other hand, duties have been so levied that commodities, which are consumed by the relatively well-to-do classes are taxed more. Thus, taxation has been used as one of the main instruments to achieve the different socio-economic objectives of the country.

Evaluation of the Tax System:

Evaluation of Indian tax system can be made with along the following four criteria, which are necessary to sub-serve the objectives of planned economic development:

i. Adequacy and productivity:

Contrary to the earlier phase, tax system has exhibited a good deal of buoyancy in recent years. The tax revenue has been continuously increasing along with an increase in national income. However, the increase in tax revenue has not been adequate enough to meet the growing requirements of the developing economy.

ii. Efficiency:

Indian tax system falls short of the criterion of efficiency. On account of complicated laws and rapid changes in their provisions, the tax system has lost the qualities of simplicity and certainty. As a result, on the one hand, this has led to massive tax evasion and avoidance. This has generated massive black money, which, in turn, has given rise to serious distortions in the economic and sociopolitical Set-up. On the other, the taxpayers have to incur high costs in paying up taxes.

iii. Equity:

Our tax system also falls short of the criterion of equity. Although our direct taxes are highly progressive, undue reliance on indirect taxes has more than counter-balanced that effect. Leaving agricultural income out of the tax net has been a source of additional inequity. Likewise, the proliferating unorganized industrial sector is providing complete, tax haven.

iv. Certainty:

The scheme of taxes in India has been considerably fluctuating, resulting in frequent tampering with tax exemptions, incentives and concessions leading to uncertainty. Even the goals of taxation have been changing. For instance, at one time the goal was to have a large number of taxes, so as to widen the tax base, whereas currently, the goal is to reduce the multiplicity of taxes and duplicity of the laws.

A more fundamental change in the tax perspective is the emphasis in the recent years on thrift, productivity and wealth accumulation as compared to the almost single most important goal of 'avoidance of concentration of income and wealth' pursued in earlier years.

Adhocism pervades the sector of corporate taxation also. Although the reasons behind the changes are quite often laudable, the policy of frequent and sudden changes in taxes ought to give way to certainty so as to have stability in the tax administration system.

In short, many provisions in the tax laws have become redundant and need to be in tandem with the liberalised economic policies. In the current scenario, India's tax structure should be based on three cardinal principles; the tax system should be simple, moderate and fair.

Taxation slabs for Individuals for the FY2015-16:

1. Individual resident aged below 60 year

Income Slabs	Tax Rates
Where the taxable income does not exceed Rs. 2, 50,000/-.	NIL
Where the taxable income exceeds Rs. 2,50,000/- but does not exceed Rs. 5,00,000/-	10% of amount by which the taxable income exceeds Rs. 2,50,000/-.Less (in case of Resident Individuals only) : Tax Credit u/s 87A – 10% of taxable income upto a maximum of Rs. 2000/-
Where the taxable income exceeds Rs. 5, 00,000/- but does not exceed Rs. 10,	Rs. 25,000/- + 20% of the amount by which the taxable income exceeds Rs. 5, 00,000/-.
Where the taxable income exceeds Rs. 10, 00,000/-.	Rs. 125,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-

2. Individual resident who is of the age of 60 years or more but below the age of 80 years at any time during the previous year

Income Slabs	Tax Rates
Where the taxable income does not exceed Rs. 3,00,000/-	NIL
Where the taxable income exceeds Rs. 3,00,000/- but does not exceed Rs. 5,00,000/-	10% of the amount by which the taxable income exceeds Rs. 300,000/-.Less: Tax Credit u/s 87A – 10% of taxable income upto a maximum of Rs. 2000/-.
Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-	Rs. 20,000/- + 20% of the amount by which the taxable income exceeds Rs. 5,00,000/-
Where the taxable income exceeds Rs. 10,00,000/-	Rs. 120,000/- + 30% of the amount by which the taxable income exceeds Rs. 10, 00,000/-.

3. Individual resident who is of the age of 80 years or more at any time during the previous year

Income Slabs	Tax Rates
Where the taxable income does not exceed Rs. 5,00,000/-	NIL
Where the taxable income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-	20% of the amount by which the taxable income exceeds Rs. 5, 00,000/-.
Where the taxable income exceeds Rs. 10,00,000/-	Rs. 100,000/- + 30% of the amount by which the taxable income exceeds Rs. 10,00,000/-

Amounts invested in certain investments like Employee Provident Fund, Public Provident Fund, Tax saving Fixed Deposits, are also eligible for deduction under section 80C upto Rs.1, 50,000 per year.

Mobilization of resources for development

Mobilization of Resources: Mobilizing is the process of assembling and organizing things for ready use or for a achieving a collective goal. The term mobilization of resources should be seen in the same context. Mobilization of resources means the freeing up of locked resources.

Every country has economic resources within its territory known as domestic resources. But often they might not be available for collective use. The percentage of resources used when compared to the potential is often very low. For a country to grow, identification and mobilization of its resources is necessary. It should be available for easy use and for central and state level planning.

Types of Resources of India

1. Natural Resources – Coal, Petroleum, Natural Gas, Water, Spectrum etc.

2. Human Resources – The labour force and intellectual capacity of a nation.

The proper utilization of these resources leads to generation of economic resources – savings, investment capital, tax etc. While mobilization of resources is considered, the mobilization of economic resources (financial resources) should also be studied.

Mobilization of Natural Resources

India, though a country with sufficient reserves, due to policy bottlenecks, is importing coal and iron. This is increasing our Current Account Deficit.

Mobilization of Human Resources

Organizing human potential for ready use is necessary for growth of India. In-fact, as country of 125 crore people, India now is eyeing more on its human resource potential. The demographic dividend is also in favour of India.

In low-income countries confronting widespread poverty, mobilizing domestic resources is particularly challenging, which has led developing countries to rely on foreign aid, foreign direct investment, export earnings and other external resources. Nevertheless, there are compelling reasons to give much more emphasis to DRM.

Mobilization for Development

•Greater reliance on DRM is vital to elevating economic growth, accelerating poverty reduction and underpinning sustained development.

•High-growth economies typically save 20-30 per cent or more of their income in order to finance public and private investment.

•DRM is potentially more congruent with domestic ownership than external resources.

•Foreign aid invariably carries restrictions and conditionality.

•FDI is primarily oriented to the commercial objectives of the investor, not the principal development priorities of the host country.

•DRM is more predictable and less volatile than aid, export earnings, or FDI.

Taxation and fiscal policy

Taxes and Government Spending

Fiscal policy describes two governmental actions by the government. The first is taxation. By levying taxes the government receives revenue from the populace. Taxes come in many varieties and serve different specific purposes, but the key concept is that taxation is a transfer of assets from the people to the government. The second action is government spending. This may take the form of wages to government employees, social security benefits, smooth roads, or fancy weapons. When the government spends, it transfers assets from itself to the public (although in the case of weaponry, it is not always so obvious that the population holds the assets). Since taxation and government spending represent reversed asset flows, we can think of them as opposite policies.

In the first macroeconomic on measuring the economy we learned that output, or national income, can be described by the equation Y = C + I + G + NX where Y is output, or national income, C is consumption spending, I is investment spending, G is government spending, and NX is net exports. This equation can be expanded to represent taxes by the equation Y = C(Y - T) + I + G + NX. In this case, C(Y - T) captures the idea that consumption spending is based on both income and taxes. Disposable income is the amount of money that can be spent on consumption after taxes are removed from total income. The new form of the output, or national income, equation reflects both elements of fiscal policy and is most useful for analysis of the effects of fiscal policy changes.

Fiscal Policy—Taxation

Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes.

A. The purposes of taxation

1) Raise money to pay for the functions of government

2) Regulate the economy

3) Encourage human behaviors preferred by government

4) Discourage behaviors disliked by government

B. Two key principles of taxation

1) Ability-to-pay principle (e.g., progressive income tax)

2) Benefit tax principle (e.g., bridge toll and motor-fuels taxes)

C. Two main objects of taxation

1) Taxes on income (e.g., income tax and capital-gains tax)

a. Do income taxes discourage work and saving?

2) Taxes on consumption (e.g., sales tax, excise tax, and VAT)

a. Do consumption taxes disadvantage lower income people?

D. Two types of taxes in terms of incidence

1) Progressive taxes apply lower rates to low-income people and higher rates to upper income people as per the ability-to-pay principle

2) Regressive taxes are usually flat taxes in which the tax takes a higher proportion of a poor person's income than a rich person's income.

Economic Planning-

Economic Planning is a term used to describe the long term plans of government to co-ordinate and develop the economy with efficient use of resources. Economic planning in India was started in 1950 after independence, it was deemed necessary for economic development and growth of the nation.

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

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

Importance of planning for Economic development

Planning without an objective is like driving without any destination. There are generally two sets of objectives for planning, namely the short-term objectives and the long-term objectives. While the short-term objectives vary from plan to plan, depending on the immediate problems faced by the economy, the process of planning is inspired by certain long term objectives. In case of our Five Year plans, the long-term objectives are:

(i) A high rate of growth with a view to improvement in standard of living.

(ii) Economic self-reliance;

(iii) Social justice

(iv) Modernization of the economy

(v) Economic stability

Salient features of India's five year plans- Priorities Target achievements

Since 1947, the Indian economy has been premised on the concept of planning. This has been carried through the **Five-Year Plans**, developed, executed, and monitored by the Planning Commission. With the Prime Minister as the ex-officio Chairman, the commission has a nominated Deputy Chairman, who holds the rank of a Cabinet Minister. Montek Singh Ahluwalia is the last Deputy Chairman of the Commission (resigned on 26 May 2014). The Eleventh Plan completed its term in March 2012 and the Twelfth Plan is currently underway. Prior to the Fourth Plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which led to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.

Summary: Five Year Plans in India

Plan	Notes
First Plan (1951 - 56)	It was based on Harrod-Domar Model.
	Community Development Program launched in 1952
	Focus on agriculture, price stability, power and transport
	It was a successful plan primarily because of good harvests in the last two years of the plan
Second Plan (1956 - 61) Target Growth: 4.5% Actual Growth: 4.27%	Also called Mahalanobis Plan named after the well known economist
	Focus - rapid industrialization
	Advocated huge imports through foreign loans.
	Shifted basic emphasis from agriculture to industry far too soon.
	During this plan, prices increased by 30%, against a decline of 13% during the First Plan
Third Plan (1961 - 66) Target Growth: 5.6% Actual Growth: 2.84%	At its conception, it was felt that Indian economy has entered a take-off stage. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy.
	Based on the experience of first two plans, agriculture was given top priority to support the exports and industry.
	Complete failure in reaching the targets due to unforeseen events - Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66
Three Annual Plans (1966-69) Plan holiday for 3years.	Prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans
	During these plans a whole new agricultural strategy was

	implemented. It involving wide-spread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.
	During the Annual Plans, the economy absorbed the shocks generated during the Third Plan
	It paved the path for the planned growth ahead.
Fourth Plan (1969 - 74) Target Growth: 5.7% Actual Growth: 3.30%	Main emphasis was on growth rate of agriculture to enable other sectors to move forward
	First two years of the plan saw record production. The last three years did not measure up due to poor monsoon.
	Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue
Fifth Plan (1974-79) Target Growth: 4.4% Actual Growth: 3.8	The fifth plan was prepared and launched by D.D. Dhar.
	It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self reliance'
	Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments
	The plan was terminated in 1978 (instead of 1979) when Janta Party Govt. rose to power.
Rolling Plan (1978 - 80)	There were 2 Sixth Plans. Janta Govt. put forward a plan for 1978-1983. However, the government lasted for only 2 years. Congress Govt. returned to power in 1980 and launched a different plan.
Sixth Plan (1980 - 85) Target Growth: 5.2% Actual Growth: 5.66%	Focus - Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, population control through family planning, etc.
Seventh Plan (1985 - 90)	Focus - rapid growth in food-grains production, increased employment opportunities and productivity within the framework

Target Growth: 5.0% Actual Growth: 6.01%	of basic tenants of planning.
	The plan was very successful, the economy recorded 6% growth rate against the targeted 5%.
Eighth Plan (1992 - 97)	The eighth plan was postponed by two years because of political uncertainty at the Centre
	Worsening Balance of Payment position and inflation during 1990-91 were the key issues during the launch of the plan.
	The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6%
	Some of the main economic outcomes during eighth plan period were rapid economic growth, high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.
Ninth Plan (1997- 2002) Target Growth: 6.5% Actual Growth: 5.35%	It was developed in the context of four important dimensions: Quality of life, generation of productive employment, regional balance and self-reliance.
Tenth Plan (2002 - 2007)	Goals:
	To achieve 8% GDP growth rate
	Reduction of poverty ratio by 5 percentage points by 2007.
	Providing gainful high quality employment to the addition to the labour force over the tenth plan period.
	Universal access to primary education by 2007.
	Reduction in gender gaps in literacy and wage rates by atleast 50% by 2007.
	Reduction in decadal rate of population growth between 2001 and 2011 to 16.2%.

	Increase in literacy rate to 72% within the plan period and to 80% by 2012.
	Reduction of Infant Mortality Rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012.
	Increase in forest and tree cover to 25% by 2007 and 33% by 2012.
	All villages to have sustained access to potable drinking water by 2012.
	Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.
Eleventh Plan (2007 - 2012)	Goals:
	Accelerate GDP growth from 8% to 10%. Increase agricultural GDP growth rate to 4% per year.
	Create 70 million new work opportunities and reduce educated unemployment to below 5%.
	Raise real wage rate of unskilled workers by 20 percent.
	Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12. Increase literacy rate for persons of age 7 years or above to 85%.
	Lower gender gap in literacy to 10 percentage point. Increase the percentage of each cohort going to higher education from the present 10% to 15%.
	Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births
	Reduce Total Fertility Rate to 2.1
	Provide clean drinking water for all by 2009. Reduce malnutrition among children between 0-3 years to half its present level. Reduce anaemia among women and girls by 50%.

	Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17
	Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children
	Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015
	Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012
	Increase forest and tree cover by 5 percentage points.
	Attain WHO standards of air quality in all major cities by 2011-12.
	Treat all urban waste water by 2011-12 to clean river waters.
	Increase energy efficiency by 20 percentage points by 2016-1

Failures of Five Year plans are also so many:

1. **Rise in Prices**:

Price stability has been one of the objectives of every five year plan in India. But almost all the plans witnessed considerable rise in price-level. In first plan, price level came down. In all other plans, the prices recorded a steep rise. Price level rose on average by 63 percent in second plan, 5.8% in third plan, 9% in fourth plan, 6.3% in fifth plan, 3.6 percent in Ninth plan and 4% in 2004-05.

2. Increase in unemployment:

During the period of five year plans, unemployment went on rising. At the end of first five year plan 53 lakh persons were unemployed. Their number rise to 349 in 2004-05. In the last 22 years employment opportunities have increase by 2.3 percent while the supply of labour has increased by 2.5% resulting in an increase in unemployment.

3. Slow Growth in Production Sector:

In the five year plan, growth rate of production was slow in many sectors. Priority should have been given to the development of agriculture in all the plans, but it was not done. Capital intensive industries in urban areas were given precedence over small scale industries in the rural areas. In agriculture green revolution continues to be confined largely to wheat and rice crop.

4. Inequality in Distribution of Income and Wealth:

One of the main objectives of five year plans has been to minimise inequality in distribution of income and wealth. But the plan witnessed only increase in inequality. Rich Class becomes richer and poor class poorer. This inequality is found not only in industrial sector but in agriculture sector also. According to one estimate, 3 percent of household own roughly 50 percent of cultivable land.

5. Inefficient Administration:

An expert team of U.N.O. observed that one of the main short comings of Indian plans has been with reference to its implementation. Plans are formulated after good deal of discussion and deliberation but their targets are not achieved due to inefficient administration, dishonesty, vested interest and red tapism etc.

6. Lack of Strong Foundation:

In spite of the fact that nine five year plans have rolled by still the economic base is far from being strong. We are still dependent on weather God for good harvest. In 1965-66, 1966-67, 1979-80, 1982-83 and 2002-03, the economy received a big jolt due to failure of monsoons. Large scale import of food grains was resorted to Gulf war in 1991 also caused disruption to Indian Economy. In 1998, due to shortage in the production of onions, the prices increased to Rs. 60 per kg.

7. Extra Ambitious:

Indian plans are criticised on the ground that their targets are very ambitious. Two factors may account for its first shortage of resources and second faulty implementation of the plans. These has been a wide gap between the targets of growth rate and their achievements during the period of planning average growth rate of Indian economy has been 4.4 percent as against the target of 5%. The gap between the targets and achievements underlines the failures of the plans.

8. Paradox of Saving and Investment:

Although during the planning period there has been appreciable increase in saving and investment, yet the growth rate of economy has been very slow.

Several factors account for this paradox:

(a) Capital output ratio is very high in India. It is around 3.6:1 relatively less increase in production.

(b) Considerable part of investment is in the form of buffer stocks of food grains and not in time form of fixed capital formation. No wonder, despite the increase in the rate of investment there is no corresponding increase in production.

(c) Large portion of investment is made in traditional sector instead of modern one.

9. No increase in the Standard of Living:

All the five year plans of India aimed at raising the standard of living of the people. In fact what to say of improving the living standard, even the basic necessaries have not yet been provided to the people. On an average, a normal healthy person needs 2508 calories of food per day but in India per capita availability of food is 2400 calories.

An individual gets 16 metres of cloth per annum. Regarding housing, the condition is deplorable. In 1950-51, per capita income at 1993-94 prices was Rs. 3687. In 2004-05, it increased to Rs. 12416 at 1993-94 prices. In India 26% of population still lives much below the poverty line.

Even after 55 years of planning, poverty alleviation programme has not met with much success. In the end we can conclude that plans are sound but the problem is of proper implementation. Political interference and attitude of bureaucracy is greatly responsible for failure of plans.

Factors affecting successful implementations of Five year Plans

- Government support
- Achievable Targets
- Good Governance
- No corruption
- Availability of funds
- Proper Monitoring and control

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