

ECONOMICS OF DEVELOPMENT AND PLANNING

Printed by
EXCEL BOOKS PRIVATE LIMITED
A-45, Naraina, Phase-I,
New Delhi-110028
for

Lovely Professional University
Phagwara

SYLLABUS

Economics of Development and Planning

Objectives:

Sr. No.	Topics
1.	**Economic Development:** Meaning, difference between developed and developing economies, Features of Indian Economy- a developing economy.
2.	Distinction between Economic Growth and Economic Development, Use of per capita income as an index of economic development and its limitations.
3.	Human Resources and Economic Development; Theory of demographic transition, Size and growth rate of population in India, Urbanization and economic growth, Population growth as a factor of economic development and Human Development index.
4.	Strategies of Development-Low-level equilibrium trap and big push; Balanced Growth and Unbalanced Growth; choice of technique-basic issues.
5.	International Trade and development and role of international institutions (World Bank, IMF and WTO) in economic development.
6.	Objective and Strategy of Economic Planning in India.
7.	Public Sector, Private Sector and Indian Planning: Evolution, Role, Causes for the expansion of Public Enterprises and Private Sector, Performances, Shortcomings.
8.	Planning in India-Eleventh and Twelfth Five Year plan.

Unit 1: An Introduction to Economic Development

Notes

CONTENTS

Objectives

Introduction

1.1 Meaning of Economic Development

1.1.1 Definitions of Economic Development

1.1.2 Characteristics of a Developed Economy

1.2.3 Importance of Economic Development

1.2 Difference Between Developed and Developing Economies

1.2.1 Developed versus Developing Economies

1.2.2 Characteristics of Developed and Developing Countries

1.3 Distinction Between Developed and Underdeveloped Economies

1.4 Role of Institutions in Economic Development

1.4.1 Institutions and the Extent of their Correlation to Development

1.4.2 Costs

1.4.3 Property Rights and the Return to Investment

1.4.4 Power of Expropriation

1.4.5 Cooperation and Social Capital

1.5 Obstacles to Economic Development

1.5.1 Poverty Cycle

1.5.2 Infrastructure

1.5.3 Social and Cultural Factors Acting as Barriers

1.6 Summary

1.7 Keywords

1.8 Review Questions

1.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the meaning of Economic Development
- Explain the difference between Developed and Developing Economies
- Describe the distinction between Developed and Underdeveloped Economies
- Explain the role of institutions in Economic Development
- Discuss the obstacles to Economic Development

Notes

Introduction

The initial question that comes to the mind when "Economic Development" is raised is: What is development? What makes it take place? Majority people tend to think of economic development as the characteristic that characterize the developed areas of today, that is Western Europe as well as North America, where most of the people are perceived to enjoy a great standard of living with access to education, housing, health care, employment as well as leisure activities. This is one method of observing development, however the determinants of economic development are still far from being entirely identified and understood and there are plenty of views held, some of them inconsistent, even among economists. Economic development is the development of economic wealth of countries, areas or communities for the welfare of their inhabitants. From a policy viewpoint, economic development can be described as efforts that seek to enhance the economic welfare and quality of life for a community by creating and/or preserving jobs and supporting or expanding incomes and the tax base. The aim of this Unit is to facilitate the students to comprehend fundamental expressions. At the end of this unit you should be able to grasp the meaning of Economic Development, difference between Developing, Developed, and underdeveloped Economies, function of institutions in Economic Development, and hindrances to Economic Development.

1.1 Meaning of Economic Development

Economic development ideally depicts the sustained, concentrated actions of communities and policymakers that enhance the standard of living as well as economic health of a particular locality. Economic development can be described as "a sustained community effort to improve both the local economy and the quality of life by building the area's capacity to adapt to economic change" (Loveridge and Morse). Economic development is a wide term that does not have a sole, distinct definition.

Economic development is a process wherein an economy's real national income and per capita income increases over a lengthy period of time. Here, the process implies the influence of certain forces which function over a long period and embody changes in dynamic elements. It consists of changes in resource supplies, in technology, skills and efficiency, in the rate of capital formation, in demographic composition, in institutional as well as organisational set-up. It also infers respective changes in the structure of demand for goods, in consumption habits and living standards, in the level and pattern of income distribution, in size and composition of population, and in the design of social relationships and religious ideas, dogmas, and institutions. In short, economic development is a process comprising of a long chain of inter-related changes in basic factors of supply and in the structure of demand, resulting in a rise in the net national product of a country in the long run.

Economic development can also be depicted as the qualitative and quantitative changes in existing prevailing economy. Economic development includes development of human capital, rising the literacy ratio, enhance important infrastructure, enhancement of health and safety and others regions that aims at raising the general well-being of the citizens. The terms economic development and economic growth are utilised interchangeably but there is a very huge difference between the two. Economic growth can be observed as a sub category of economic development. Economic development is a government policy to raise the economic, social welfare and making sure a stable political environment. Economic growth on the contrary is the general increase in the country products as well as services output.



Caution Economic development will only be successful if the whole nation is willing to give their best efforts towards its achievement. A lot of theories have been forwarded by different schools of thought about how economic development should be achieved. Many economists have suggested that each country should try to achieve modernization and industrialization in order to achieve economic development.

Notes

There appears to be a lot of correlation between human development and economic growth. This can be described by a simple instance in an economy. We shall regard economic growth as a precondition for economic development.



Example: Assume we have a household in an economy that ekes their livelihood from a horticultural firm. Economic growth will bring business opportunities to the country and the effects spills over to all sectors of the economy. The firm will increase its profits which will in turn be used to pay for their generation education, improve the access to health care for that family and will increase the general living standard of the family. If this effect is replicated in each household overall economic development will be achieved.

Economic development results in improvements in various sectors of a nation. There are various indicators that economist utilise to assess the level of economic development in a country. The indicators are: increasing literacy rates, declining poverty rates, reducing infant morbidity and rising life expectancy. Economic development has to be backed by the whole nation from politicians, economists and also civilians. Hence, it can be concluded that, economic development results in the creation of more chances in the sectors of education, research, health sector, human development and environmental conservation. It equally infers a rise in the per capita income of every citizen.

1.1.1 Definitions of Economic Development

The term 'economic development' is usually used in several other synonymous terms like economic growth, secular change, economic welfare, social justice and economic progress. As such, it is not simple to give any exact and clear definition of economic development. But bearing in mind its scientific study and its popularity, a working definition of the term appears to be quite necessary. Economic development, as it is now generally understood, involves the development of agriculture, trade, industry, transport, means of irrigation, power resources, etc. It, hence, depicts a process of development. The sectoral improvement is the portion of the process of development which depicts the economic development. Roughly speaking, economic development has been defined in separate manners and as such it is tough to locate any single definition which may be considered entirely satisfactory.

1. *Prof. Meier and Baldwin:* As per Prof. Meier and Baldwin; "Economic development is a process whereby an economy's real national income increases over a long period of time". This definition describes three ingredients of economic development: a) process, b) real national income and c) long period. The discussion of these three factors would assist in understanding the notion of economic development.

   (a) *Process:* The term 'process' here depicts the operation of particular forces which bring about changes in specific variables. Different kinds of economic changes take place during the development process. The most vital of these changes can be widely divided into two categories;

   i. changes in the structure of demand for the products.

   ii. changes in the supply of fundamental factors, and

   Changes in factor supply occur because of discovery of additional resources, population growth, capital accumulation, adoption of better techniques of production and institutional changes. Again, alterations in the structure of demand for products occur because of changes in the size and composition of the people, changes in the level and distribution of income, changes in tastes etc. Therefore economic development may be described as development of factor, supplies and product demand. These changes cause a rise in real national income over a long period.

Notes

(b) *Real National Income:* Other things being same, there is a positive correlation between the actual national income and economic development. Greater real national income of a country is regarded an index of greater economic development and vice versa. In short, we can say that the real national income is the assessing rod of economic development. Although it may be an imperfect method for evaluating development, it is, however, utilised for global development comparisons. Here focus is on the word "real" which indicates that purchasing power of national income should be taken into consideration for quantifying development. Put differently, the money national income is to be discounted by the price index, as depicted by the formula as follows:

$$Y_r = \frac{Y_m}{P}$$

Where, Y_r = Real National Income

Y_m = Money National Income

P = Price Index

The formula indicates that development can be meaningful in case an increase in money national income is not accompanied by raise in price level. It infers that price stability is essential necessary condition for promoting development. Hence, economic development indicates higher real national income.

(b) *Long Period:* Economic development depicts an upward trend in actual national output over a long period. "Although the upward trend means that each successive cyclical peak and trough is generally at a higher level of real national output than the preceding peak and trough respectively, it is the increase in real national income between cycles rather than the increase within a cycle that denotes development". Since a main business cycle covers usually 6 to 13 years, long term process here depicts a sustained increase in actual output over the duration of at least 25 years. Hence, economic development is a process comprising of a long chain of interconnected changes in basic factor supplies and in the structure of demand for products resulting in a rise in actual national income over a long duration.

2. ***Benard Okun and Richard W. Richardson:*** As per Benard Okun and Richard W, Richardson, "Economic development may be defined as a sustained secular improvement in well-being, which may be considered to be reflected in an increasing flow of goods and services".

A close examination of this definition discloses that it is more or less identical to the concept of development as described by G.M. Meier. As per this definition, economic development implies constant secular increase in national output for endorsing material welfare of the society. It emphasises on three vital aspects of development:

i. Economic development is a dynamic as well as long term phenomenon;

ii. It infers improvement in material welfare and

iii. National output is the assessing rod of material welfare.

This definition is not considered satisfactory as it fails to describe the role of social, institutional, political, institutional and international forces. These forces are regarded important as they shape and guide the global economic development. Hence this definition leaves much to be desired.

3. ***Profs. Baran, Bachanan and Ellis:*** Some economists such as Profs. Baran, Buchanan and Ellis interpret economic development as something more than just an increase in total output; they trust that it should also indicate a rising standard of living. They describe economic development as a process whereby the total per capita income or output of a country increases over the long period.

Notes

(a) **Prof. Baran** says, "Let economic growth or development be defined as an increase over time in per capital output of material goods."

(b) In the words of **Profs. Bachanan and Ellis;** "Development means developing the real income potentialities of the under-developed areas by using investment to effect those changes and to argument those productive resources which promise to raise real income per person".

In board terms, it infers that in a developing economy leading to an increase in per capita income.

$$\Delta Y_r > \Delta P$$

Here,

Δ = refers to increase,

Y_r = to real national income and

P = to size of population.



Notes For economic development the rate of increase real income should be higher than the rate of population growth.

1. ***Prof. Colin Clark:*** Prof. Colin Clark describes economic development from the view of economic welfare. In his own words, "Economic progress can be defined simply as an improvement in economic welfare." Economic welfare, following Pigou, can be defined in the first instance as an abundance of all those goods and services which are customarily exchanged for money. Leisure is an element in economic welfare and more precisely: "We can define economic progress as the attaining of an increasing output of those goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial".

1.1.2 Characteristics of a Developed Economy

A developed economy is the portrayed by raise in capital resources, improvement in effectiveness of labour, development of means of transport and communication, better organisation of production in all spheres, growth of banks and other financial institutions, urbanisation and an increase in the level of living, enhancement in the standards of education and expectation of life, greater leisure and more recreation amenities and the broadening of the mental horizon of the people, and so on. In brief, economic development must break the poverty barrier or the nasty circle and bring into being a self-generating economy so that economic growth turns self-sustained. The main features of developed countries are as follows.

1. ***Significance of Industrial Sector:*** Majority of the developed countries in the world have provided much importance of the development of industrial sector. They have huge capacities to use all resources of production, to maximise national income and to offer employment for the jobless people. As we are quite conscious that these countries attain the main part of their national income from the non-agriculture sectors which involve transport, industry, trade, and communication. For example, England usually receives about 21% from transport and commerce, 50% of her national income from industrial sector, 4% from agriculture and 25% from other sectors. The same instance is with the Japan, U.S.A., and other West European countries. But in India as well as other developing countries agriculture donates, say, 35 to 40%, to their national income.

Notes

2. *High Rate of Capital Formation*: Developed countries are usually very rich, as they maintain a high level of savings and investment, with the outcome that they have great quantity of capital stocks. The rate of investment comprises of 20 to 25% of the total national income. The rate of capital formation in such countries is also very high. Apart from this, well-developed capital market, high level of savings, wider business prospects and capable entrepreneurship has resulted in a high development of capital formation in these economies.

3. *3. Use of High Production Techniques and Skills*: High production methods and skills have become a necessary portion of economic development process in the developed countries. The new methods have been utilized for the exploitation of the physical human resources. These countries have, thus, been offering priority to the scientific research, so as to enhance and evolve the new and latest technique of production. As a result, these countries find themselves able to generate goods and services of a better equality relatively at the lesser cost. It is due to the use of high production methods and latest skills, that the countries such as Japan, Germany and Israel could have developed their economies very quickly, though they have restricted natural resources.

4. *Low Growth of Population*: The developed countries, such as the U.S.A., the U.K. and other Western European countries have low growth of population as they have low level of birth rate pursued by low level of death rate. Great health conditions, high amount of education and high level of consumption of the people have resulted in maintain low growth of population pursued by low level of birth and death rates. The life expectancy in such countries is also very high. The great rate of capital formation on the one hand as well as low growth of population has led to high level of per capita income and prosperity in such countries. As a result, the people in these countries enjoy a greater standard of living and work together jointly for more quick economic and industrial development of the nations.

Apart from this, the whole society, its structure and values are discovered to be dedicated to the objective of quick economic and industrial development. The position of individuals in the society is determined by the capability of the persons and not by their birth, caste or creed. Dignity of labour is preserved. The economic purpose and strong desire to lead a better social life always inspire people to contribute to the process of development. The main goal of rapid economic development, especially in the developed economies is to acquire the level of stagnant economic growth, so that they may preserve the prevailing economic status and exercise control over business cycle.

1.2.3 Importance of Economic Development

At its heart, economic development is related to building healthy economies so as to have healthy communities. These are merely a few of the methods in which economic development assists communities:

- *Increased Tax Base*: The extra revenue offered by economic development supports, preserves, and improves local infrastructure, like roads, libraries, parks, and emergency medical services.
- *Job Development*: Economic development offers better wages, advantages, and chances for advancement.
- *Business Retention*: Businesses feel valued by the community and, in turn, are more probably to stay in town, providing to the economy.
- *Economic Diversification*: A diversified economic base assists expand the local economy and decreases a community's susceptibility to a single business sector.
- *Self-sufficiency*: A sturdier economic base depicts public services are less reliant on intergovernmental impacts and alliances, which can alter with each election.

Notes

- *Productive Use of Property*: Property utilised for its "highest and best use" maximizes the value of that property.
- *Quality of Life*: More local tax dollars and jobs increase the economic tide for the whole community, involving the total standard of living of the residents.
- *Recognition of Local Products*: Successful economic development frequently happens when locally produced goods are consumed in the local market to a higher extent.



Caselet **India is Set to become the Youngest Country by 2020**

Every third person in an Indian city today is a youth. In about seven years, the median individual in India will be 29 years, very likely a city-dweller, making it the youngest country in the world. India is set to experience a dynamic transformation as the population burden of the past turns into a demographic dividend, but the benefits will be tempered with social and spatial inequalities.

These are some of the findings of the 'State of the Urban Youth, India 2012: Employment, Livelihoods, Skills,' a report published by IRIS Knowledge Foundation in collaboration with UN-HABITAT.

A closer analysis of the urban youth suggests that greater political participation, engagement at a policy level and urgent attention to improving their quality of life can ensure that India enjoys the benefits of this dividend.

The report traces the incredible rise — and the eventual decline — of this cohort in India. The population in the age-group of 15-34 increased from 353 million in 2001 to 430 million in 2011. Current predictions suggest a steady increase in the youth population to 464 million by 2021 and finally a decline to 458 million by 2026.

By 2020, India is set to become the world's youngest country with 64 per cent of its population in the working age group. With the West, Japan and even China aging, this demographic potential offers India and its growing economy an unprecedented edge that economists believe could add a significant 2 per cent to the GDP growth rate.

But the report suggests urban spaces have not necessarily aided the quality of life enjoyed by Indian youth. A telling sign: one-fifth of the Indian urban population lives on less than a dollar a day. Additionally, the report finds that while income levels in cities may appear to be higher, the cost of living is also constantly increasing, resulting in shrinking savings, inadequate access to health care and lack of quality education. Maternal mortality remains the 'top cause of death among young women.' Further, more than half of young urban women are anaemic, pointing to inadequate food and nutrition.

The report's findings indicate that the problem is not urbanisation per se but the inequalities that it seems to accentuate.

While India is undergoing a demographic transition, regional disparities in education mean the benefits will not be evenly spread across the country. The report says the southern and western States will be the first to experience a growth dividend as they accounted for 63 per cent of all formally trained people. The largest share of youth with formal skills was found in Kerala, followed by Maharashtra, Tamil Nadu, Himachal Pradesh and Gujarat. Among those undergoing training, Maharashtra had the highest share, Bihar the lowest.

The unequal access to opportunity and the lack of emphasis on education remains a persistent problem. The report finds that a person in an urban area has a 93 per cent greater chance of acquiring training than someone in a rural area.

Source: http://www.thehindu.com/news/national/india-is-set-to-become-the-youngest-country-by-2020/article4624347.ece

Notes

Self Assessment

State whether the following statements are true or false:

1. Economic development can also be referred to as the quantitative and qualitative changes in an existing economy.
2. Economic development leads to improvements in only industrial sector of a nation.
3. Lower rate of real national income of a country is considered an index of higher economic development.

1.2 Difference Between Developed and Developing Economies

A country is deemed to be developing or developed chiefly based on economics, per capita income, literacy rate, industrialization, living standards etc. A developed country has a greatly developed economy as well as advanced technological infrastructure in relation to other less developed nations. The size of the advancement of a country can be observed from the successful development of the country. Income per capita, unemployment, economic growth, and population growth rate is partially an indicator to assess the success of development. Classifying the countries into developed and developing countries is usually based on economic and technological sectors.

As per Kofi Annan, former Secretary General of the United Nations, *"A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment."* However, United Nations Statistics Division claims that, *"There is no established convention for the designation of "developed" and "developing" countries or areas in the United Nations system... The designations "developed" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process."*

In usual parlance, a country is deemed to be developing or developed chiefly based on economics, industrialization, per capita income, literacy rate, living standards etc. As per Wikipedia, *"A developed country or "more developed country" (MDC), is a sovereign state that has a highly developed economy and advanced technological infrastructure relative to other less developed nations. Most commonly the criteria for evaluating the degree of economic development is gross domestic product (GDP), the per capita income, level of industrialization, amount of widespread infrastructure and general standard of living. Which criteria are to be used and which countries can be classified as being developed are subjects of debate".*

1.2.1 Developed versus Developing Economies

Following table 1.2 assist you to grasp the difference between Developed and Developing Economies.

On the basis	Developed Economy	Developing Economy
Population	• low birth rate • higher life expectancy • low death rate due to better medical facilities • aging population	Developing countries have higher rate of natural increase. Death rates have fallen faster than birth rates; birth rates are significantly higher than in developed countries, whereas death rates are only somewhat higher than in developed countries. Tradition, lack of contraception, poverty and lack of education are the main causes of high population growth rate.

Contd ...

Notes

Education	High level of literary, Highly trained workforce. Workers are paid high rates of wages.	Low level of literacy with low skill levels of the workforce results in low wages of the workforce. A government is the main provider of education services and has low percentage of public expenditure allocated for education.
Economic structure	These economies usually have a larger tertiary sector and most of the workforce is engaged in service industries. The country produces and exports high technology products or high value added goods.	Primary sector is the major contributor to the GDP of the country. Low GDP per capita is there. Usually exports agricultural goods or natural resources and imports value added goods from developed countries.

1.2.2 Characteristics of Developed and Developing Countries

Given below are the generalized features of developed countries:

- High level of affluent citizens
- Post-industrial economies
- High level of industrial development
- Technological advantages
- Low levels of unemployment
- Higher education rates
- Better roads
- Stable governments
- High Human Development Index (HDI)
- Human and natural resources are fully utilized
- High level of per capita income
- Increased life expectancy
- Low death rates
- Low birth rates
- Abundant food supplies
- Good housing conditions
- Safe water supplies
- Easy to access advanced medical services

Given below are the generalized features of developing countries:

- Higher levels of unemployment
- In the process of industrialization
- Low level of affluent citizens
- Unstable governments

Notes

- Lower education rates
- Often contain undeveloped rural villages
- High level of death rates
- High level of birth rates
- Poor housing conditions
- High infant mortality rate
- Dirty, unreliable water supplies
- Poor access to medical services
- Poor nutrition
- Diets that are short in calories and/or protein
- Limited technological capacity
- Endemic disease in some countries
- Low to medium standard of living
- Factors of production are not fully utilized
- Unequal distribution of income



Caution Make a list of developing and developed economies of Asia according to the International Monetary Fund's World Economic Outlook Report, April 2012 and World Bank data.

Self-Assessment

Fill in the blanks:

4. Income per capita, economic growth, unemployment, and population growth rate is partly an indicator to measure the success of .....
5. ..... sector is the major contributor to the GDP of the country.
6. A ..... country has a highly developed economy and advanced technological infrastructure relative to other less developed nations.

1.3 Distinction Between Developed and Underdeveloped Economies

We may now differentiate between the characteristics of an underdeveloped economy from that of developed one as given below:

1. Underdeveloped economies are differentiated from developed economies based on per capita income. Generally, those countries which have actual per capita incomes lower than a quarter of the per capita income of the United States, or approximately less than 5000 dollars per year, are grouped as under-developed countries.
2. An underdeveloped economy, in comparison with an advanced economy, is underequipped with capital with respect to its population as well as natural resources. The rate of growth of employment as well as investment in such an economy trails behind the rate of growth of population. The resources are not merely employed but also underemployed. In technical jargon, the production probability frontier of a poor country is well ahead of the

Notes

actual production curve, while the gap between the potentiality and real use of resources is narrow in a developed economy.

3. High rate of growth of population is characteristic vital feature of most of the underdeveloped economies. Population growth in underdeveloped countries counteracts economic growth. In advanced economies, the instance is different. As Prof. Hansen indicates, one of the empirical tests of secular stagnation in advanced economies is the decreasing rate of population growth. The stagnation issue in a developed economy is an issue of population, natural resources and technology failing to maintain pace with capital accumulation.

4. The central issue of underdeveloped economies is the occurrence of mass poverty which is the cause as well as the result of their low level of development. Shortage and scarcity are the chief economic issues in these economies, while the affluent societies of advanced countries have economic issues arising from abundance.

5. In an underdeveloped economy, the basic issue is that of output, real income or the standard of living, as these economies are typified by low income, low productivity, and a poor standard of living. A huge majority of people in an underdeveloped country are undernourished, ill-clothed and without sufficient shelter. To use Rostow's terminology, economies of poor countries identical to those of a conventional society, where modern science and technology are either not accessible or not regularly and methodically applied. On the contrary, most of the developed countries currently enjoy a high rate of mass-consumption. In their economies, per capita real income has increased to a level at which a huge number of people can afford consumption exceeding food, shelter and clothing.

6. Capital deficiency is the chief reason of poverty of a poor country, whereas affluent capital accumulation is the chief reason of stagnation of an advanced country.

7. In an underdeveloped economy, the issue of under-employment is more vital than that of unemployment, while a developed economy may possess a cyclical unemployment issue. There is chronic unemployment in an underdeveloped economy. An advanced economy may have unemployment rarely because of business fluctuations and a low marginal propensity to consume. While an under developed economy is faced with the issue of disguised unemployment in the sense that even with unchanged methods in agriculture could be eliminated without decreasing agricultural output. Hence, in a developed economy, unemployment refers to waste of resources, whereas in an underdeveloped economy, it is of disguised kind.

8. Poor countries are poor in technology; advanced countries are advanced in technology. In fact, the level of technology acquired in production is a reliable sign of the level of economic development. Employment of advanced technology goes along with huge capital resources, high attainments in the areas of scientific research, higher availability of entrepreneurial skill and a great supply of efficient skilled labour. Hence, development of technology is the fundamental goal of the backward economy while development of technology no longer stays the overriding goal of an affluent society.

Self-Assessment

State whether the following statements are true or false:

9. High rate of growth of population is an important characteristic of most of the underdeveloped economies.

10. Capital deficiency is the main cause of poverty of a poor country.

11. Advanced countries are poor in technology.

Notes

1.4 Role of Institutions in Economic Development

Cross-country empirical analyses, along with micro-level studies, offer strong support for the overwhelming significance of institutions in forecasting the level of development in countries across the world. Safety of property rights, efficient law enforcement, and efficient bureaucracies, along with a wide range of norms and civic mores, are discovered to be strongly associated to better economic performance over time. This section targets to explain why institutions are vital to economic development and to offer evidence for the arguments made. Institutions help economic development via four wide channels: deciding the costs of economic transactions, determining the extent of appropriability of return to investment, deciding the level for oppression and expropriation, and determining the extent to which the environment is advantageous to cooperation and enhanced social capital.

1.4.1 Institutions and the Extent of their Correlation to Development

In the words of North (1990, p. 4): *"Institutions are the rules of the game in a society, [...] the humanly devised constraints that shape human interaction. [...] They structure incentives in human exchange, whether political, social or economic"*. Institutions consist of for instance contracts and contract enforcement, government bureaucracies, protection of property rights, the rule of law, and financial markets. They also, however, involve habits and beliefs, norms, social cleavages and customs in education (so-called informal institutions). Formal institutions characteristically tend to be the crystallization of informal institution, as social norms in the realms of gender, class and caste, for instance, determine rules of political participation as well as representation, techniques of economic exchange, and inclusion of various groups in society.

In a landmark study of latest institutional economics, Rodrik, Subramanian and Trebbi (2002) evaluate the comparative significance of institutions, geography and integration (trade) in deciding the differences in incomes between the world's majority developed countries and the poorest ones. They discover that institutional determinants "trump" all others. It is not a new intuition that for the flourishing of economic activity institutions matter. Adam Smith had already observed this in surprising detail, depicting the private property rights importance of a justice system, and the rule of law (The Wealth of Nations).

1.4.2 Costs

Institutions favourable to economic development decrease the costs of economic activity. The costs involve transaction costs like search and information costs, bargaining and decision costs, policing and enforcement costs. They decrease transaction costs by offering common legal frameworks (for example contracts and contract enforcement, commercial norms and rules), and they motivate trust by offering policing and justice systems for sticking to common laws and regulations. Communities in LDCs typically depend on kinship or ethnic as well as religious ties for trade. Norms and networks of usual language and religion may be sufficient to make sure compliance with agreements on economic exchange; collective punishment and social reputation may be sufficient to ensure the enforcement of (frequently informal) contracts even in the lack of a third party. Greif (1993) explains the trade networks of Maghribi traders which allowed the sharing of information on dishonest traders and their cooperative punishment.



Caution To take advantage of opportunities for trade with different groups and increase the size of economic transactions, however, cultural ties are not enough.

There is need for higher information related to trading partners, and for institutions which make sure agreements on the details of exchange and compliance to the agreed situations. These take the shape of contracts, standardized weights and measures, codes of conduct, disclosure

Notes

agreements, and enforcement through courts and policing. Where transaction costs are little, the private enforcement of contracts may still be favoured. But as economic relations develop and become progressively impersonal, the function of a third party to enforce compliance to rules is increasingly essential.

1.4.3 Property Rights and the Return to Investment

Such institutions raise the security that the risk of incurring in an economic transaction is coordinated by the full appropriation of its obvious benefits. This involves the presence of individual private property rights. In case property is protected individuals are more willing to invest and to experience sunk costs. Narrating the land-ownership system in Ghana, Pande and Udry (2005) are able to depict that where individual perception of security of land tenure is low, investment in the land is vitally decreased, and output as a result drops. In fact, in the few cases in which land is attained through commercial transactions (in contrast to the conventional informal system of land redistribution), there stops to be any difference in levels of investment as security of tenure is certain. This raises output and hence is conducive to economic development.

The protection of property rights needs an expanded function for state authority. Individuals and groups sacrifice an amount of freedom so as to ensure state protection; they accept levies and taxes to include policing expenses, and state monopoly over the use of force for common security. But, there is a risk that states which have the power to enforce property rights may utilise that power to expropriate property too. Rather than reducing risk of economic transactions, this raises it. Thus property rights are by no means adequate to spur economic growth, and must be balanced by institutions which restrict the extractive capacity of state power. These typically include independent parliaments and judiciaries. Democratic institutions of political representation intensely contribute to this process.

1.4.4 Power of Expropriation

Hence institutions determine the degree to which those in power are able to expropriate the economy's resources to their private benefit. Unequal institutions strongly limit development by decreasing the capacity of individuals to access resources, spread production and raise their incomes. A comparative analysis of development trajectories of countries points out that institutions which benefit elites and permit their appropriation of resources and products have continued underdevelopment.

Countries which have experienced colonial domination incline to be plagued by such extractive institutions. These have outlived the attaining of independence on behalf of these countries, and their control has hugely been adopted by local elites. There are countless instances of societal results the cause of which can be tracked to institutional arrangements of several decades earlier.



Did u know? Greater equality and functional economic institutions are also seen as the cause for the successful development of Vietnam compared to a similar country as Nicaragua, where high inequality has concentrated power in the hands of restricted elite, and governments have failed to adequately invest in infrastructure and public welfare. Similarly, institutional capacity to exploit domestic primary resources is indicated as the key to the success of Botswana and Mauritius in comparison to other developing countries for which primary resources have turned into a curse, i.e. Sierra Leone (diamonds), Angola, Equatorial Guinea and Nigeria (oil). The outcomes of institutions have effects which lie deep in the socio-economic fabric of societies. Banerjee and Duflo (2011) recount the finding by Abhijit and Lakshmi Iyer (2005) that in India the coexistence of two systems of land-revenue collection under the British colonization caused very different outcomes; under one system, the landlord was responsible for collecting taxes, and this strengthened his role, while under the other farmers themselves were responsible for the taxes. The regions where the second system was dominant, 150 years later (with the tax system long gone)

Notes

exhibit higher agricultural yield, more schools and more hospitals, due to the development of more horizontal and cooperative social relationships among the inhabitants.

1.4.5 Cooperation and Social Capital

Institutions which are conducive to development make sure higher self-expression, permit the free flow of information and motivate the formation of associations and clubs. These form flourishing social relationships, which are favourable to greater economic interaction by raising levels of trust and broader availability of information. They permit greater sharing of resources via democratic institutions and the use of the state to decrease the risk attached to economic activity. The welfare state is an instance of an institution which pools resources to restrict the negative influences of business cycles on incomes and unemployment. Institutions favourable to development pool resources to offer the investments in health, education and infrastructure which lie at the basis of economic interaction and are essential and complementary to private investment. Informal institutions lie at the basis of an economy. They involve trade unions, public agencies, community structures and professional associations. They make up the fabric which decides the reaction to laws and government decisions. Most frequently they shape these results themselves.

Self Assessment

Fill in the blanks:

10. Institutions conducive to economic development reduce the ..... of economic activity.
11. The ..... is an example of an institution which pools resources to limit the negative effects of business cycles on incomes and unemployment.
12. The protection of ..... rights requires an expanded role for state authority.

1.5 Obstacles to Economic Development

Roughly speaking, the characteristics of an under developed economy develop obstacles in the approach of economic development, and hinder economic progress. These features evolve out of economic, religious, social, political, and institutional factors. It would be wrong to assume that only economic factors are accountable for poverty or economic backwardness of a country. Non-economic factors are equivalently responsible for the under development of an economy. The factors deterring economic development are as under.

1.5.1 Poverty Cycle

The poverty cycle is an obviously endless continuation of poverty. It is a spiteful positive feedback loop. But, it can also be a negative feedback loop. Once a person or community falls below a specific level of resourcefulness, a chain of events starts to happen that tends to perpetuate the condition: progressively lower levels of education and training resulting in lack of employment opportunities, resulting in criminal activity (like sale of illegal drugs) for survival, looting (another type of crime and a way of survival), early death, leading to addiction, shattered health, and breakup of family, resulting in even bleaker future for the next generation and so forth. This cycle persists until someone intervenes by offering worthwhile means (not hand-outs) for people to climb out of destitution, and by making sure children's health and education. With assistance, the poverty or vicious cycle can become a virtuous one. The poverty cycle is also a good example of a negative feedback loop. This is a tremendously hard cycle to break; internally it is nearly impossible so the external sources must assist the people suffering from this cycle to turn into productive members of society.

Notes

Another cycle comprises of the fact that low income results in low savings which leads to low investment which leads to low income again. In case the general income in a country is low, people in that country have lower money to save. In addition, they are unable to save a substantial percentage of their income as they must spend a higher percentage on necessary goods, like food, making savings low. As the quantity of loanable funds is low, it is very tough to borrow money. This demotivates investors from taking out loans, which makes investment low. As investment is low, there is nothing to increase the general income of the country. Income stays low and the cycle repeats itself. As you have lower investment power, it is tougher for companies to trust their money in your hands. Also, foreign direct investment tends to reduce as the foreign countries see less chance to make money as the general population doesn't have very much money. The only method to escape from the poverty cycle is to increase two or more of these three aspects: savings, income, and investment. The most efficient is investment if raised high enough, the cycle could be broken as a huge amount of investment has a higher potential to bring in greater revenue for businesses, hence increase in income, which results in more saving.

1. **Ineffective Taxation Structure**: A country that cannot tax effectively does not acquire a steady flow of income, resulting in an unusual, undependable pattern to government spending, ultimately leading to a reduction in development projects. When the taxation system in a government of an undeveloped country is unproductive, the revenue gathered is lower. The ineffective taxation causes the government to offer little or no basic institutions like infrastructure, education, effective banking systems and health care. When these institutions are neglected in a government the development of that country slows, and may stop completely.
2. **Lack of Property Rights**: Within a country lacking property rights it is more tough for businesses to begin, since property barriers are generally not respected. Because people are less likely to pursue property rules, this will result in the demand for property to decrease.
3. **Political Instability**: Political instability can make a country's infrastructure waste, and can stop government income from being distributed in the way most likely to result in development. In order to enforce rules and maintain order that permit society to function there is a requirement for government. (Political instability refers to people who don't listen to higher authority.) People must be keen to obey the laws of a country or else it will not work. A government is the system that would monitor this.
4. **Corruption**: When there is corruption in a government the entire country suffers. The people staying under the rule of a corrupt government do not have the advantage of stable institutions, and hence will have a lower standard of living because of lack of development. This is a possible issue in an undeveloped country as the government is unable to do anything advantageous for the country as well as its people. A corrupt or an instable government will obstruct any development in a country.

1.5.2 Infrastructure

Infrastructure is the foundation of services that an economy requires to function. Roads, water supply and sewers are all kinds of infrastructure. These necessities need to prevail in an economy. An absence of infrastructure restricts an economy from developing. If there are fewer roads in an economy, there will evidently be less transportation, hence making goods more unreachable to distribute. If there is an absence of water supply, there will be a great demand for water in addition to huge disease and dehydration problems. People will have overdependence on primary goods and there will not be sufficient to support everyone.



Caution A lack of infrastructure greatly affects a countries ability to grow and develop.

Notes

Infrastructure is one of the main factors to a developed economy. In the absence of infrastructure an economy doesn't operate. If infrastructure within a country is fairly developed the country itself will imitate in its development level. Infrastructure involves roads, sewers, water supply, all fundamental things a developed country would have. It is also very tough to have healthy workers without having these fundamental requirements for a country.

1. *Overdependence on Primary Products:* Overdependence on primary products possesses a downward trend in its history. Primary products are income as well as price inelastic. Hence, even if the economy goes up, it would have little to no influence on the income. A country having only primary goods is unsustainable because of the limited quantity of resources. An instance of the effects of overdependence would be countries that depend on oil as their chief source of income. Because oil is a non-renewable resource, the growth/development that arises from the oil profits is not sustainable in the long run. Also, the price for primary goods inclines to fluctuate wildly and is greatly subjective to the fluctuations in the global market. With passage of time, a downward trend may emerge. This depicts that countries lose money over time, developing power. This overdependence on primary products is also the purpose why many undeveloped countries are not as developed as others.

2. *Consequences of Adverse Terms of Trade:* Adverse terms of trade can be an obstacle to economic growth as it depicts that import prices have raised in relation to export prices. This would cause an economy to discover itself deeper and deeper in debt, and less and less competitive with trading partners. Such outcomes involve current account deficits from falling export revenue, higher costs of debt servicing, reduction in much-needed imports (For instance fuel, capital), and raise in market for illegal crops.

3. *Consequences of a narrow range of exports:* A narrow range of exports is normally because of a countries' overdependence on primary goods. These countries frequently put primary goods as the chief focus and overlook the opportunities of generating secondary and tertiary goods. There is also an absence of their products' diversity. That is as these countries are frequently good at making a specific good and if there was ever a destruction or depletion of such goods, the exports drop radically down. These are the results of a narrow range of exports. This is frequently the reason why it is complex for less developed countries to turn into more developed.

1.5.3 Social and Cultural Factors Acting as Barriers

Social restrictions to growth and development are any social problems that create barriers to economic development in either in a moral or immoral manner. These barriers are often outcomes of philosophical and co-operative beliefs.

1. *Religion*: Religion acts as an obstacle to development as conflicting religions will fight, which obstructs the growth of a country. Rather than working together, religions battle it out. Some issues may result in persecution, which distracts the country so they place less time, and effort into developing their country. Another purpose why religion serves as a barrier is because it ties into tradition. Few religions have certain rules and regulations that will hinder the development process and slow it down. The methods of the old act as an obstacle to development because of a common fear of change (this fear prevails in all humans).

2. *Culture*: Culture serves as a barrier to trade in an identical way as religion, meaning it prevents development via restrictions over what is socially acceptable.



Example: If contraceptives are considered taboo, diseases such as AIDS will be more common in a country, lowering that country's human capital and chances for development.

Notes

3. *Tradition*: Traditionalism acts as an obstacle to development because traditions can be old and out of date as a consequence of social conservation. This depicts cultures with many traditions are at a disadvantage to other countries with more contemporary methods because those who have faith in traditionalism do not want to alter certain habits, and if the country does not alter, it will never get developed. For instance, attempting to develop competitive and entrepreneurial forces in agriculture has at times been met with confusion in countries where people cannot visualise individuals personally owning land.

4. *Gender Issues*: Most frequently, "gender issues" depicts sexism. If women are not permitted to contribute to the economy, it is much tougher for a country to develop because of the fact that women could raise productivity many times over. Having only men lead the government of a developing country can be a symbol of corruption. This is an issue present in several developing countries' governments. Also, in case male children are preferred over female, it can result in infanticide. In extreme situations, there may be significantly less females with relation to males in the country and overall efficiency will reduce, thus obstructing development. Gender equality is dependent upon several factors, involving education (educated women can take control of their rights; this facilitates them to join the workforce), legal rights (equal legal rights make women less reliant upon men for economic stability), and health care. An economy that does not entirely use its resources -- in this instance all potential persons in the workforce -- it is at a serious disadvantage with relation to development.

5. *Protectionism in international trade*: Protectionism is the act of placing barriers into place to offer domestic industries an edge over foreign competitors. Though domestic industries gain advantage benefit from protectionism, consumers do not, as they must pay the price of the unstated higher cost for goods generated domestically. In other words trade barriers are almost never a great idea and generally lead to poor relationships between countries. Though there are very rare situations where trade barriers may be uncommon and should be taken as a general rule that trade barriers are bad. Observe Ricardo's comparative advantage theory.

6. *Indebtedness*: Country A borrows money from country B and utilises it in such a manner that doesn't enhance their economy. Country A will then borrow money from country C, so as to pay off country B's loan. This hence causes indebtedness and is an international trade barrier. Usually to prevent this from occurring, institutions are put in place to offer assurance that countries will spend money well.

7. *Non-convertible currencies*: Non-convertible currencies are when a country possesses a fixed exchange rate, hence their country is unable to purchase or sell currencies. They won't be able to change their currencies which makes it tougher for their country to import or export goods. As their country is not able to import or export goods, their GDP must be rather low since it's merely their own country that is purchasing their own things. Not owning a relationship with other countries as in imports/exports makes it tougher for the country to turn into developed. Not only can't the country be able to purchase or sell, other countries may be unlinked to it also and not purchase nor sell with the country that has the non-convertible currencies issue.

8. *Capital flight*: Capital flight is when foreign investments gather their money away from a country as something happened in their economy to "spook" them out of investing in that country. They reduce their investments and passage of money into the country. This is an international obstacle to development as when the foreign investment is taken away; the investment in the country reduces which decreases the inward flow of money to the country. This doesn't assist their development in the slightest, and there would be less development in the country. This usually occurs when the country is doing poorly. So as a consequence of the country performing poorly and the disappearance of the foreign investment, the country all together is severely crippled.

Notes

Example: An example of Capital flight is when the United States completely moved Google out of China. China was using Google to spy on certain people through the Gmail account system. Google didn't like that they were doing this so they prohibited the use of Google anywhere in China. They moved Google over to Japan to do business with them.

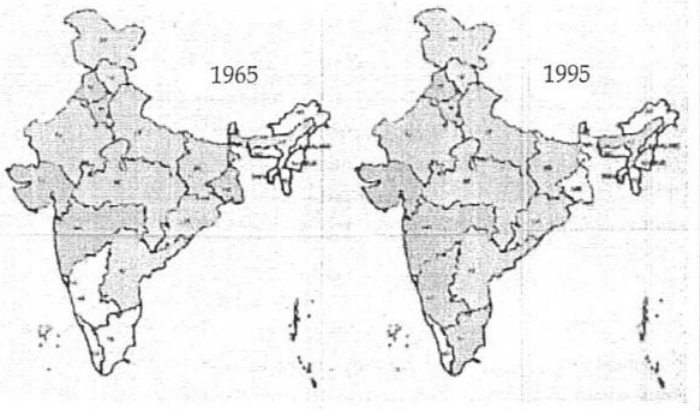
Self Assessment

State whether the following statements are true or false:

13. The poverty cycle is a great example of a negative feedback loop.
14. A lack of infrastructure prevents an economy from developed.
15. Indebtedness is the act of putting barriers into place to give domestic industries an edge over foreign competitors.

Case Study **Why is Economic Growth Across Indian States Uneven?**

Economic development is often an uneven process. The existence of global inequality bears evidence to the unequal rates of development in different parts of the world: countries such as Brazil, China, South Africa Vietnam and Sri Lanka have developed much faster than India, Pakistan and Uganda over the past 50 years. It is therefore not surprising that development within countries is also uneven, both in developed and developing countries.



Indian States: Rich (pink), Poor (blue)

India's regional development has been particularly uneven, even by developing country standards. Since the 1960s, India's regional growth performance has been polarised, characterised by a high-income club and a low-income club. The rich club constitutes states such as Gujarat, Maharashtra, Punjab and Haryana, with the more recent additions of Tamil Nadu and Karnataka. The low-income club includes Orissa, Bihar, Rajasthan, Madhya Pradesh and Uttar Pradesh, amongst others. Worryingly, the composition of these clubs has remained largely unchanged over the last four decades.

There is also another 'mobile' group of middle-income states that have gone in and out of fortune. For example, West Bengal was a rich state in the 1960s, but went into decline in the

Contd...

Notes

1970s and 1980s. On the other hand, Tamil Nadu has seen persistent improvement in living standards and today counts as a rich state.

Attempts to understand this uneven growth performance have occupied a large socio-economic literature, with explanations varying from the nature of the state to planning and development, fiscal federalism, the tax system, investment, education and infrastructure, to name a few. But for a given growth engine, the international experience has revealed a particular spatial pattern: countries (such as those in the European Union) and regions within countries (for example, within the US, UK, Japan and China) have shown patterns of development whereby economic growth "spills over" into contiguous regions.

It's easy to see how this occurs. Producing regions connect to their sources of inputs and markets through roads and railways. Subsidiary industries connected to the main industry also set up in the same region for ease of transportation, and thus a whole set of industries emerge in one hub. This is not quite industrial concentration, but more the spatial concentration of economic activity.

Recent studies reveal that India, unusually, does not show any evidence of a 'neighbours' effect'. In other words, a spill over effect does not explain why certain sets of Indian states cluster to form either rich or poor clubs. However, individually assessing each state in each club explains this anomaly.

For the rich club, the states of Gujarat and Maharashtra on India's west coast are industrially driven and most of their products are exported. Punjab and Haryana, on the other hand, are India's 'bread basket', producing more than 50 per cent of India's rice and wheat. Agriculturally driven, these two states are contiguous to Gujarat and Maharashtra but do not bear any economic linkages through which 'spill over' might occur. Gujarat and Maharashtra are also industrially different: Gujarat produces textiles and machine parts, while Maharashtra focuses on automobiles, aerospace and farm equipment. On the basis of these four states alone (being partially contiguous western states) one can easily explain why there has been no 'neighbours' effect' for the rich states' club. Their industries do not mutually benefit each other and are not dependent on each other.

Of recent, some South Indian states have entered the rich states' club—notably Tamil Nadu, on the south-east coast. It is not contiguous with the other rich states, but like the other four, is based on manufacturing, particularly ship building. There are, however, no geographical linkages with either Gujarat or Maharashtra. Karnataka in the south-west has also developed an independent growth engine of consulting in finance and information technology for the international market, but demonstrates little connectivity with other regional industries.

States in the poorer club – including Uttar Pradesh (north, sub-Himalayan), Rajasthan (far-west, desert), Madhya Pradesh (centre, arid plateau), Bihar and Orissa (contiguous states in the north-east) and sub-Himalayan states in the far-east – have some agricultural activity, but their contribution to the national GDP is minimal. Clearly, with no engine of growth, there is no economic mechanism by which these states can connect and benefit from a spill over effect.

This scenario has worrying implications for India's economic growth and regional development. While India has experienced unprecedentedly high GDP growth rates for the past 15 years, growth seems to have been fuelled from a few sectors of the Indian economy, and even worse, only a few states. India's growth hubs are not connected with each other—either geographically or via a particular engine of growth. With only a handful of growth hubs with no spill over effects, the distribution of employment across the states is highly skewed, leaving pockets of poverty in the poorer states.

Contd...

Notes

India's uneven economic growth therefore threatens to exacerbate regional poverty. Subsidiary economic activities (industry, finance, services) emanating from the growth hubs must be developed to provide employment and welfare more consistently across the country.

Questions

1. Study and analyse the case.
2. Write down the case facts.
3. What do you infer from it?

Source: http://blogs.lse.ac.uk/indiaatlse/2013/02/18/why-is-economic-growth-across-indian-states-uneven/

1.6 Summary

- Economic development is a process whereby an economy's real national income as well as per capita income increases over a long period of time.
- Economic development leads to improvements in many sectors of a nation.
- Grouping the countries into developed and developing countries is generally based on economic and technological sectors.
- Most of the developed countries in the world have given much importance of the development of industrial sector.
- The economic motive and strong desire to lead a better social life always inspire people to contribute to the process of development.
- A country is deemed to be developing or developed mainly on the basis of economics, per capita income, industrialization, literacy rate, living standards etc.
- Protection of property rights, effective law enforcement, and efficient bureaucracies, together with a broad range of norms and civic mores, are found to be strongly correlated to better economic performance over time.
- The features of an under developed economy create obstacles in the way of economic development, and hamper economic progress.
- The poverty cycle is a seemingly endless continuation of poverty.
- Infrastructure is the foundation of services that an economy needs to function.
- Social barriers to growth and development are any social issues that create barriers to economic development in either a moral or immoral way.

1.7 Keywords

Economic Development: Economic development is a process wherein an economy's real national income and per capita income increases over a lengthy period of time.

Economic Growth: An increase in the capacity of an economy to produce goods and services, compared from one period of time to another.

Indebtedness: It is referred to as the state of being indebted.

Infanticide: The practice of killing new born infants.

Non-convertible currencies: Non-convertible currencies are when a country possesses a fixed exchange rate, hence their country is unable to purchase or sell currencies.

Notes

Poverty Cycle: The cycle of poverty has been described as a phenomenon where poor families become trapped in poverty for generations.

Protectionism: Protectionism is the act of placing barriers into place to offer domestic industries an edge over foreign competitors.

1.8 Review Questions

1. Define Economic Development.
2. What are the characteristics of a developed economy?
3. Describe the importance of economic development.
4. Explain the difference between developed and developing economies.
5. Distinguish between developed and underdeveloped economies.
6. Discuss the importance of institutions and the extent of their correlation to development.
7. "Institutions conducive to economic development reduce the costs of economic activity." Elucidate.
8. Write brief note on Power of Expropriation.
9. Do you think that protection of property rights requires an expanded role for state authority? If yes give reasons.
10. Highlight the obstacles to economic development.

Answers: Self-Assessment

1. True
2. False
3. True
4. Development
5. Primary
6. Developed
7. True
8. True
9. False
10. Costs
11. Welfare state
12. Property
13. True
14. False
15. False

1.9 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Gupta K.C. & Kaur Harinder (2004). *"New Indian Economy and reforms."* Deep and Deep Publication, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Notes

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.

Thirlwall A. P. (1999). *"Growth and Development."* Palgrave Macmillan publisher, N. Delhi.



Online links

http://wyocre.uwagec.org/econdev1.html

http://www.svbic.com/node/24

http://www.tutor2u.net/blog/index.php/economics/comments/unit-4-macro-what-is-economic-development

http://www.newagepublishers.com/samplechapter/000186.pdf

http://www.differencebetween.info/difference-between-developed-and-developing-countries

http://www.dineshbakshi.com/igcse-gcse-economics/developed-and-developing-economies/revision-notes/1333-difference-between-developed-and-developing-economy

http://www.scribd.com/doc/45422408/difference-between-developed-and-developing-countries

Notes

Unit 2: Indian Economy

CONTENTS

Objectives

Introduction

2.1 Indian Economy- a Developing Economy

2.2 Current state of Indian Economy

2.3 Characteristics of Indian Economy

2.4 Challenges before Indian economy

2.5 Future of Indian Economy- 2020

2.6 Summary

2.7 Keywords

2.8 Review Questions

2.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss about Indian Economy- a developing economy
- Describe the current state of Indian Economy
- Characteristics Features of Indian Economy
- Challenges before Indian economy
- Future of Indian Economy – 2020

Introduction

India has one of the biggest and greatest growing economies in the world. Unluckily it is also one of the poorest countries in the world. The chief purpose for this is the very big population that the country has. There has been sturdy expansion in recent years as the government has made a concentrated effort to enhance the economic strength of the nation. There is however yet a long way to go. There have definitely been spheres of improvement but it has been very uneven. The outcome is a country wherein there is a big high tech sector while simultaneously a large percentage of the population is still involved in conventional small scale farming. For majority years the Indian economy struggled because of poor government policy. There were way too many regulations designed to restrict foreign investment. There was also a huge amount of red tape that had to be navigated if you wished to begin a business. This had a severe influence on the economy and in the initial nineties the government decided that slackening the economy would be the best way to motivate growth. In large part they have succeeded in doing this. Though agriculture still stays the biggest industry in the country the growth has chiefly been in the service and manufacturing sectors. The expansion of the Indian economy is a bit unusual in that it has done so with very less export. In comparison to a country like China that has depended profoundly on manufacturing products for export India has exported very less. Majority of the growth has been due to consumer demand within the country and by plenty of travellers coming

Notes

to India for health tourism. This has led to slower growth than China has had currently but it has also been more stable. India emerged through the current global financial crisis virtually unscathed as so little of its economy relies on foreign trade. One of the big strengths that India has as it makes efforts to grow its economy is its very good education system. India has become a main player in the high tech field due to its highly educated workforce. Unluckily this education is very unequally spread. A comparatively small group of people attain a very good education whereas a much bigger group attains little if any education. The outcome is that there is a rather high rate of unemployment in India in spite of the economic growth of the country. Given the huge population this is unlikely to alter anytime soon. There are a few problems that are obstructing the growth of the Indian economy that will require to be overcome. The greatest is a lack of resources, especially in the energy sector. The country is heavily reliant on resources imported from other countries. The other great problem that will need to be tackled with is a need to enhance the infrastructure. This is particularly true when it comes to things such as electricity.

2.1 Indian Economy- a Developing Economy

The Indian economy is the fourth biggest economy of the world based on Purchasing Power Parity (PPP). It is one of the most appealing destinations for business and investment opportunities because of big manpower base, diversified natural resources and sturdy macro-economic basics. Also, the process of economic reforms started since 1991 has been offering an investor-friendly environment via a liberalised policy framework covering the whole entire economy.

The growth as well as performance of the Indian economy in the world market is explained with relation to statistical information offered by the several economic parameters. The economic indicators offer an extensive view of the economy involving its productive power for fulfilment of human wants.



Example: Gross National Product (GNP), Gross Domestic product (GDP), Net National Product (NNP), per capita income, Gross Domestic Capital Formation (GDCF), etc. are the various indicators relating to the national income sector of the economy.

In the industrial sector, the Index of Industrial Production (IIP) is a sole representative figure to assess the usual level of industrial activity in the economy. It assesses the absolute level as well as percentage growth of industrial production.

The four chief monetary aggregates of measures of money supply which show the condition of the monetary sector are: (i) M1 (Narrow money)= Currency with the public + demand deposits of the public; (ii) M2= M1 + Post Office Savings deposits; (iii) M3 (Broad money)= M1 + time deposits of the public with banks; and (iv) M4= M3 + Total post office deposits.

Price movement in the country is depicted by the wholesale price index (WPI) and the consumer price index (CPI). WPI is utilised to measure the alteration in the average price level of goods traded in the wholesale market, whereas the Consumer Price Index (CPI) traps the retail price movement for varied sections of consumers. There are presently four consumer price indices including different socio-economic groups in the economy. These four indices are Consumer Price Index for Agricultural Labourers (CPI-AL); Consumer Price Index for Industrial Workers (CPI-IW); Consumer Price Index for Rural Labourers (CPI -RL) and Consumer Price Index for Urban Non-Manual Employees (CPI-UNME).

All these economic indicators not only measure/analyse the current performance of an economy but also assist in predicting and projecting its future growth prospects.

Self Assessment

Notes

Fill in the blanks:

1. In the industrial sector, the ..... is a single representative figure to measure the general level of industrial activity in the economy.
2. ..... in the country is reflected by the wholesale price index (WPI) and the consumer price index.
3. The ..... provide a wide view of the economy including its productive power for satisfaction of human wants.

2.2 Current state of Indian Economy

The recent scenario of Indian economy has been typified by optimistic growth and strong macro-economic basics, especially with tangible advancement towards fiscal consolidation and a sturdy balance of payments position. Gross Domestic Product (GDP), at present market prices, is predicted at ₹ 46,93,602 crore in 2007-08 by the Central Statistical Organisation (CSO) in its advance estimates (AE) of GDP. Whereas, the GDP at factor cost, at continuous1999-2000 prices, is forecasted to grow at 8.7 per cent in 2007-08.

The industrial sector has observed a moderate slowdown in the growth during the initial eight months of the present fiscal, till November 2007. The growth attained, during April-November 2007, by the industrial sectors has been 9.2 per cent. The capital goods have expanded at an accelerated speed, over a high base acquired in the earlier years, which augurs well for the needed industrial capacity addition. While, the consumer durables depicted a negative growth during the period, hence forcing a visible decrease in the growth of the total consumer goods basket, in spite of reasonable growth in the non-durables.

India's telecom sector has been one of the largest success stories of market oriented reforms. With over 270 million connections, India's telecommunication network is the third biggest in the world and the second biggest among the emerging economies of Asia. The total number of telephones has risen from 76.53 million on March 31, 2004 to 272.88 million on December 31, 2007. Whereas 63.8 million telephone connections were added during the 12 months of 2006-07, over 7 million telephone connections are being added each month during the present year. The tele-density has also risen from 12.7 per cent in March 2006 to 23.9 per cent in December 2007. Additionally, the portion of wireless phones has also risen from 24.3 per cent in March 2003 to 85.6 per cent in December 2007.

The infrastructure sector has been growing on a huge scale. The Index of Six core-infrastructure industries, having a straightaway bearing on infrastructure, ranked at 243.0 (provisional) in December 2007 and recorded a growth of 4.0 per cent (provisional) in comparison to a growth of 9.0 per cent in December 2006. During April-December 2007-08, six core-infrastructure industries recorded a growth of 5.7% (provisional) as against 8.9% during the matching period of the earlier year. Coal production grew by 4.9% (provisional) in comparison to an increase of 4.6% during the same period of 2006-07. Electricity generation grew by 6.6% (provisional) in comparison to 7.5 per cent during the same period of 2006-07.

With respect to the Wholesale Price Index (WPI), inflation was 3.9% as on January 19, 2008, in comparison to 6.3 per cent a year ago. In primary articles, there was a sharp deceleration in inflation to 3.8% as on January 19, 2008, in comparison to 10.2 per cent a year ago. They contributed 22% to total inflation as against 35.4 per cent in the earlier year. Likewise, in case of manufactured products, year-on-year inflation as on January 19, 2008, was 3.9% compared to 5.9% in the corresponding period of 2006-07. They provided 55.2 per cent of the year-on-year inflation. Additionally, fuel, power, light and lubricants, with an inflation rate of 4.5%, contributed 30.4%, which is over twice its weight of 14.2% in the index.

Notes

The monetary sector also persists to be growing at a sustainable rate during 2007-08 to serve the twin goals of managing the transition to a greater growth path and containing inflationary pressures. The cumulative increase in the stock of M3 in 2007-08 has stayed above the cumulative growth in 2006-07 and was 13.3% on January 4, 2008, in comparison to 12.2 per cent on January 5, 2006. Likewise, net foreign exchange assets (NFA) of the RBI, on year-on-year basis as on January 4, 2008, expanded by 39.1% as against 26.1% on the corresponding date of the earlier year.

In the secondary market segment, the market activity grew further during 2007-08 with BSE and NSE indices climbing new peaks of 21,000 and 6,300, respectively, in January 2008. The chief reasons being the greater inflows from Foreign Institutional Investors (FIIs) and broader participation of domestic investors, especially the institutional investors. During 2007, on a point-to-point basis, Sensex and Nifty Indices increased by 47.1 and 54.8%, respectively. While the hike of BSE Sensex during 2007-08 so far was the fastest quickest ever, the journey of BSE Sensex from 18,000 to 19,000 marks was acquired in merely four trading sessions during October 2007.

It additionally crossed the 20,000 mark in December 2007 and 21,000 in an intra-day trading in January 2008.

Advancement in fiscal consolidation has been satisfactory in the post-Fiscal Reforms and Budget Management Act (FRBMA) era. The fiscal deficit of the Centre, as a ratio of GDP, came down from 5.9% in 2002-03 to 3.4% in 2006-07 and is projected to further decrease to 3.3 per cent in 2007-08 [Budget Estimate (BE)] (3.2% on the basis of revised GDP estimates). Likewise, the revenue deficit decreased from 4.4 per cent in 2002-03 to 1.9 per cent in 2006-07 and is projected to further decrease to 1.5% in 2007-08 (BE).

India's external economic environment persisted to be supportive with the invisible account staying strong as well as stable capital flows. As a ratio of total capital flows and on a net basis, foreign investment has depicted a mixed trend in the recent year. In 2006-07, the proportion ranked at 33.5 per cent, while it increased to 43.4 per cent in the initial half of 2007-08. Foreign direct investment (FDI) increased appreciably on both gross as well as net basis. On a gross basis, FDI inflow into India was at US$ 11.2 billion in the initial six months of 2007-08. FDI inflows were broad-based and extended across a range of economic activities such as financial services, banking services, manufacturing, information technology services and construction. Whereas, net portfolio investment inflow was US$ 18.3 billion in April-September 2007, over double the inflow during 2006-07.



Did u know? India registered FDI growth of 24.2 per cent year-on-year (y-o-y) to touch ₹ 242.28 billion (US$ 3.95 billion) in April-May 2013, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Self Assessment

Fill in the blanks:

4. India's ..... sector has been one of the biggest success stories of market oriented reforms.
5. WPI stands for .....
6. FIIs stands for .....

Notes



Caselet **Reform in Indian Economy**

In its current form, the Indian economy is like a car sputtering forward and now slowly running out of fuel.

India is in desperate need of reform of its tax laws. For over two years it has delayed passing laws on the goods & services tax which will allow the central government to regulate taxing on services and certain goods, rather than the current system of state regulations. In the current system, it is extremely difficult for business to run operations across the 28 state lines. Foreign investors have raised concerns on two Indian provisions seeking to tax indirect investments and combat tax evasion. The first gives India power to retroactively tax the indirect transfer of assets. The second targets tax evaders via the General Anti-Avoidance Rule (GAAR), putting the responsibility on investors registered in countries with special tax exemptions with India to prove they do not intend to explicitly avoid tax. Investors are fretting and such policies are threatening to drive away private investment rather than encourage it. Major hedge funds such as Macquarie's Asia hedge fund which manages over $50 billion in emerging markets, have begun pulling out.

A situation, which was unthinkable a couple of years ago, has led to India feeling significant strains on its fiscal budget. When India was growing at 8% a few years ago, no one questioned the government's spending. The Indian government spent freely on a variety of populist subsidies programs, racking up a fiscal deficit that it allowed itself due to GDP growth. India considered this deficit sustainable. The deficit currently stands close to 7% and the government must reign in on its spending, and it must discontinue these subsidies programs and allocate money to other sectors. For over a year, the central government has attempted but failed to institute such reforms.

Source: http://www.policymic.com/articles/16089/india-economic-growth-once-a-shining-economy-india-is-in-danger-of-running-out-of-gas

2.3 Characteristics of Indian Economy

India's economy is varied and includes agriculture, handicrafts, manufacturing, textile, and a multitude of services. Though two-thirds of the Indian workforce still makes their living directly or indirectly via agriculture, services are an expanding sector and are playing a progressively important role of India's economy. India is a main exporter of highly-skilled workers in software and financial services, as well as software engineering. Other sectors such as manufacturing, nanotechnology, pharmaceutical, shipbuilding, biotechnology, telecommunication, aviation and tourism are depicting strong potential with greater growth rates.

India pursued a socialist-inspired approach for majority of its independent history, with stringent government control over private sector participation, and foreign direct investment. But, since the early 1990s, India has slowly opened up its markets via economic reforms by decreasing government controls on foreign trade as well as investment. The privatization of publicly owned industries and the starting of specific sectors to private and foreign interests have proceeded gradually amid political debate.

Few of the salient features of Indian economy are follows:

1. ***Low per capita income:*** Under developed economy is typified by low per capital income. India per capital income is very low in comparison to the advanced countries.

Notes



Example: The capital income of India was 460 dollar, in 2000 whereas their capita income of U.S.A in 2000 was 83 times than India. This trend of difference of per capita income between under developed and advanced countries is gradually increasing in present times.

India's not only the per capita income is less but also the income is unequally distributed. This mal-distribution of income as well as wealth makes the issue of poverty in more critical and severe and stands hindrance in the process of economic progress.

2. *Heavy Population Pressure:* The Indian economy is confronting the issue of population explosion. It is obviously evident from the overall population of India which was 102.67 cores in 2001 census. It is the second greatest populated country China being the first. India's population has reached 110 cores. All the under developed countries are typified by high birth rate which inspires the growth of population; the quick rate of growth of population demands a higher rate of economic growth to preserve the same standard of living. The failure to support the living standard makes the poor as well as under developed countries more poor and under developed.

3. *Pre-dominance of Agriculture:* Occupational distribution of population in India clearly shows the backwardness of the economy. One of the fundamental features of an under developed economy is that agriculture results in a very big portion in the national income and a very great proportion of working population is involved in agriculture.

4. *Unemployment:* Greater unemployed and under employment is another vital characteristic of Indian economy. In under developed countries, labour is plenty. It is not possible to offer gainful employment to the whole population. Absence of job opportunities as well as disguised unemployment is developed in the agriculture fields. This leads to deficiency of capital formation.

5. *Low Rate of Capital Formation:* In backward economics such as India, the rate of capital formation is also low. Capital formation chiefly relies on the capability and willingness of the people to save as the per capita income is less and there is mal-distribution of income and wealth.

Self Assessment

Fill in the blanks:

7. India is a major exporter of ..... workers in software and financial services, and software engineering.

8. Occupational distribution of population in India clearly reflects the ..... of the economy.

2.4 Challenges before Indian economy

Indian economy confronts many challenges which it has to overcome so as to maintain its recent status and to acquire the target GDP for financial year 2012-2013. These challenges are as below:

- *Population explosion:* The increasing population is eating into the success of India. As per 2011 census of India, the population of India has crossed one billion and is increasing at a rate of 2.11% roughly. Such a huge population puts plenty of emphasis on economic infrastructure of the nation. Hence India has to monitor its burgeoning population.
- *Poverty:* According to records of National Planning Commission, 36 crore people are staying under the poverty line in India in 2012.
- *Unemployment:* The rising population is pressuring hard on economic resources and job opportunities. Indian government has begun several schemes like Jawahar Rozgar Yojna,

Notes

and Self Employment Scheme for Educated Unemployed Youth (SEEUY). However these are turning out to be a drop in an ocean.

- *Rural Urban Divide:* It is said that India resides in villages, even at present when there is plenty of talk going about migration to cities, 70% of the Indian population still resides in villages. There is a very blunt difference in speed of rural and urban growth. Unless there isn't a balanced development Indian economy cannot progress.

These challenges can be overcome by the sustained and planned economic reforms. These reforms involve:

- Preserving fiscal discipline
- Launch of financial reforms involving privatization of few public sector banks.
- Orientation of public expenditure towards sectors in which India is faring badly like health and education.
- Reorganization of agricultural sector, launch of new technology, decreasing agriculture's dependence on monsoon by creating means of irrigation.
- Launch of reforms in labour laws to promote more employment chances for the growing population of India.

Self Assessment

Fill in the blanks:

9. Indian government has started various schemes for employment such as ..... and .....

10. SEEUY refers to .....

2.5 Future of Indian Economy- 2020

Over the years, the Indian economy has passed through phases of extraordinary transformation. After observing the Hindu rate of growth for the initial three decades post-independence, the Indian economy got its initial "big push" with the initial phase of economic reforms in 1980s. The economy registered annual average growth of around 5.6% during this decade, with considerable decline in population below the poverty line from over 50% in late 1970s to under 40% in late 1980s. The second main push came post 1991, following liberalization of the economy, which assisted it to move on to a sustainable greater growth trajectory. India's growth performance was even more remarkable in the next decade, with per capita income (at steady prices) increasing to 38,408 in FY10, versus 16,065 in FY91. Though India has made vital economic progress as the consequence of reforms over the years, it still has a long way to go before it is able to make miserable poverty a history.

India has been progressively looked at as an engine that will propel global growth in future. This is motive enough to observe at the economic prospects of India over the recent decade. Our forecasts point out that the possibility of India sustaining 9.0% growth during the recent decade is very high. As per the estimates, in the journey during the recent decade as India traverses a high growth path, it would ultimately surpass Japan's GDP level (as in 2010 at recent US$) by FY20. The concomitant increase in income levels coupled with rising young working-age population will work towards raising the share of discretionary spending in private final consumption expenditure and increasing the savings rate.



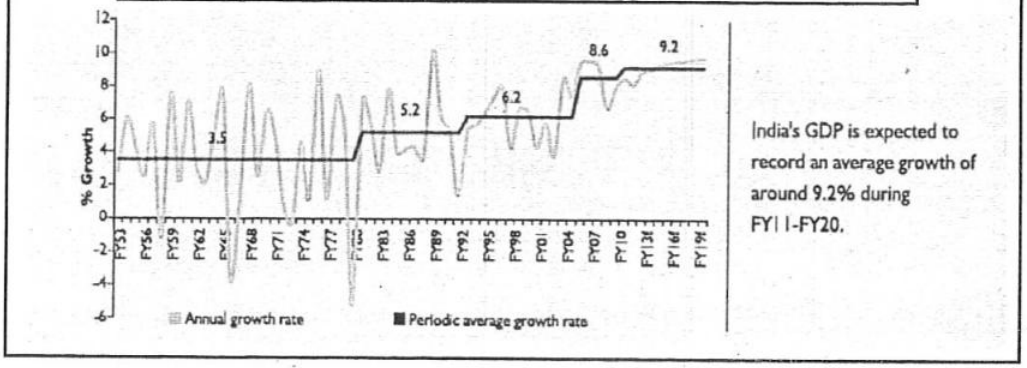
Notes Growth of urban population will be one of the most important demographic shifts that will be witnessed during the current decade.

Notes

Infrastructure will be both a reason and a result of economic growth during the recent decade. The increasing incomes and urbanisation will enhance demand for infrastructure investment in sectors like roads, electricity, telecom etc. Massive infrastructure investment by the Government along with raised investment activity by the private sector will speed up overall investment during the present decade. Government of India's (GoI's) emphasis on infrastructure development in current years and the structural policy changes is anticipated to offer the third "big push" to the Indian economy, facilitating it to acquire inclusive growth during the present decade (Current decade refers to FY11-FY20).

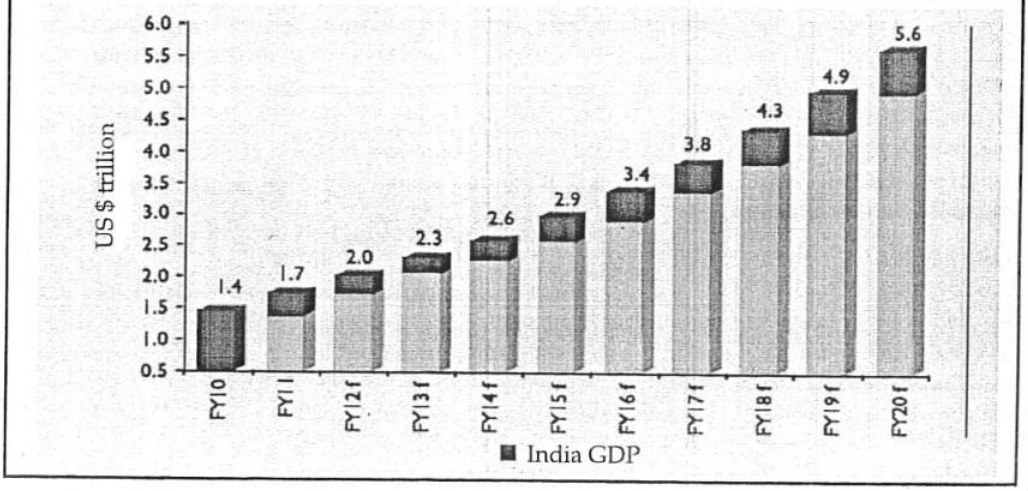
The present decade will be rich with extreme changes that will offer us with both challenges as well as opportunities. Our forecasts for the present decade can assist us to prepare for future challenges and snatch opportunities. Economic growth during the present decade will bring with it challenges with respect to meeting increasing energy needs in manners that are cost-efficient, sustainable as well as environmentally compatible. Pressures on natural resources will worsen during the current decade. Raised demand and environmental concerns will make innovation essential . The solution will require lying in technology that caters to rising energy demand that are sustainable, cost-efficient, and environmentally compatible and decreases dependence on natural resources.

Figure 2.1: Indian Economy: A Shift to High Growth Path (growth in real GDP)



Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Figure 2.2: India to become US$ 5 trillion (current market price) Economy by 2020



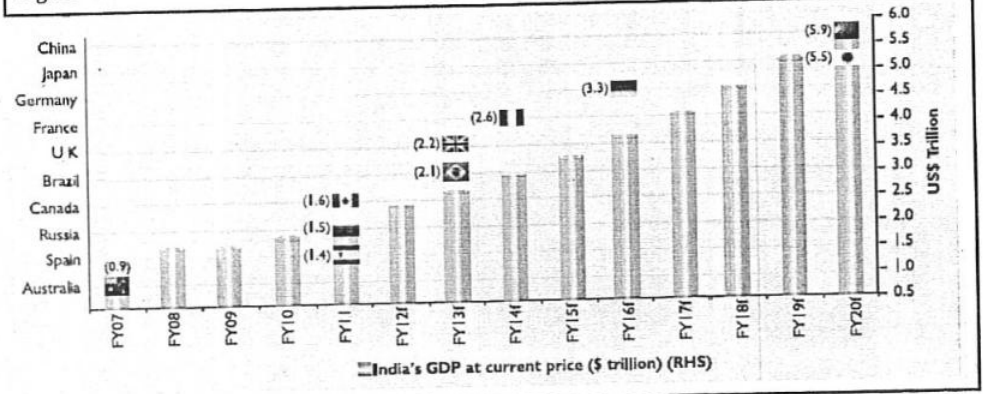
Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Notes

India's Real GDP is anticipated to record an average growth of nearly 9.2% during FY11-FY20, on the back of healthy private consumption demand, raised infrastructure spending, considerable growth in investment activity and sturdy growth in services sector.

Sturdy GDP growth is expected to lead to considerable increase in real per capita income, which in turn would result in vital reduction in the percentage of people residing below the poverty line. With increasing income levels, India is anticipated to move from a low-income country to a middle-income or upper-middle income country by 2020.

Figure 2.3: India to Cross the GDP of Major Developed Countries During the Current Decade

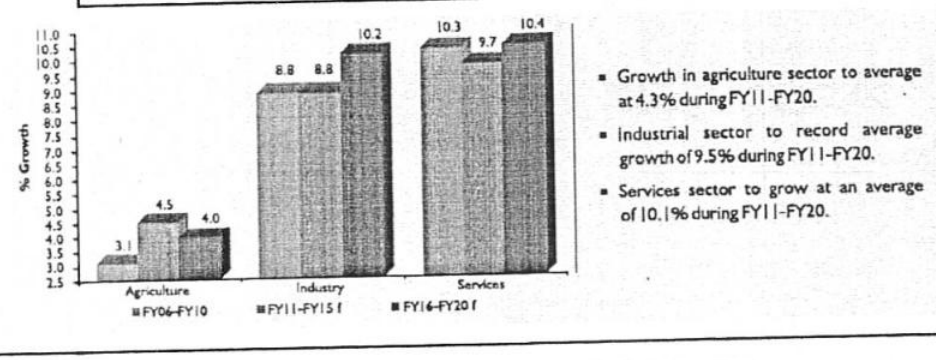


Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

India's growth to be driven by a rapidly expanding services sector: In spite of reduction in net sown area because of growing urbanisation and industrialisation, the agriculture sector is anticipated to register an average growth of 4.3% (the growth projection for agriculture sector is underscored by an assumption of usual monsoon) during FY11-FY20 owing to rise in investment in agricultural infrastructure like irrigation amenities, warehousing and cold storage.

It is anticipated that the industrial element of GDP to grow at an average of 9.5% during FY11-FY20, supported by robust private consumption demand, rise in India's exports, growth in domestic investments and government's thrust on infrastructure development. Among industries, sectors like 'metal products & parts', 'basic, metal & alloy industries' and 'machinery & equipment' instead of transport equipment are probably to see sustained growth during the recent decade owing to strong investment demand and enhanced expenditure on infrastructure development. Additionally, increasing income levels and rising of the middle class working-age population are anticipated to lead to higher demand for consumer durables.

Figure 2.4: Chart shows Industry & Service Sectors to Register Strong Growth



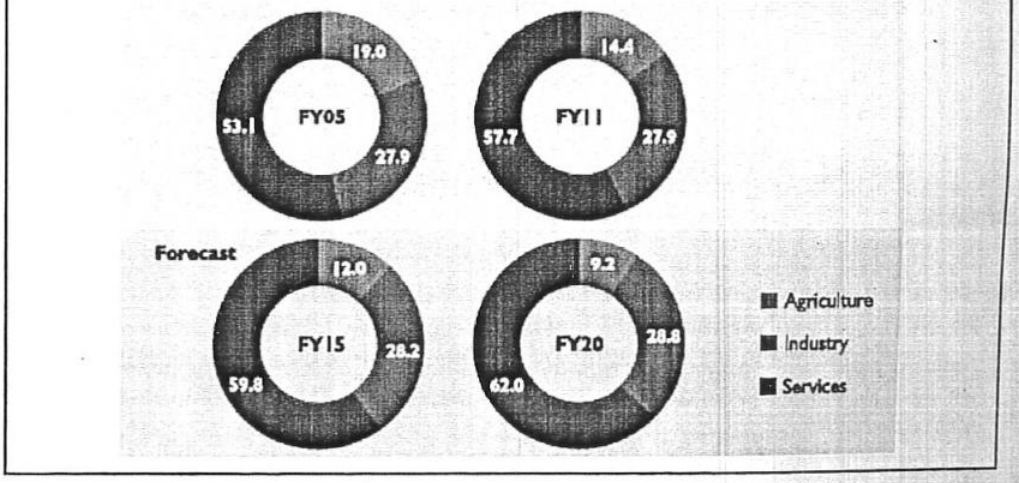
Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Notes

It is projected that the considerable growth is anticipated in the services component of GDP during the present decade. Growth in services sector is anticipated to average at 10.1% during FY11-FY20, greatly driven by healthy growth in hotels, communication, transport and financial services.

The analysis of sectoral GDP data discloses the pattern usually exhibited by economies in the phase of quick growth. In spite of nearly 4% growth in the agriculture sector, its share in aggregate GDP is anticipated to decrease further from 14.6% in FY10 to 9.2% in FY20. This can hugely be credited to increased traction in services. While the share of services sector is anticipated to increase from 57.3% in FY10 to 62.0% in FY20, the industrial sector's share in aggregate GDP is anticipated to rise marginally from 28.1% in FY10 to 28.8% in FY20.

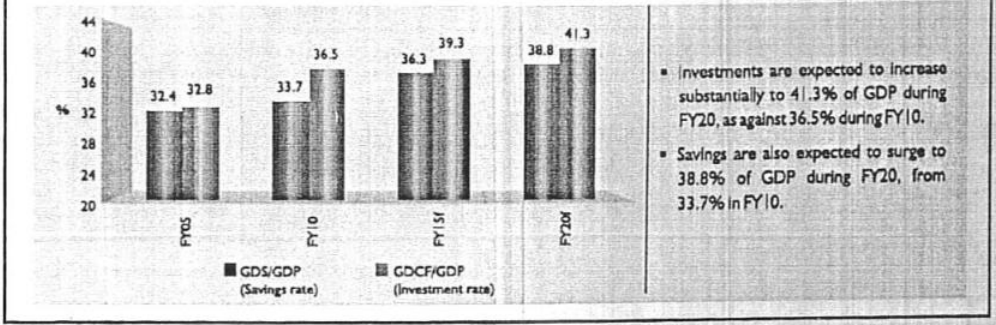
Figure 2.5 Chart shows Rising share of Services Sector in India's GDP



Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Strong growth in domestic savings to support domestic investment: The government's emphasis on infrastructure development along with raised investment activity by the private sector is anticipated to accelerate the total investment during the present decade. According to the study, investment as assessed by Gross Domestic Capital Formation (GDCF) is anticipated to rise to 41.3% of GDP during FY20 from 36.5% in FY10.

Figure 2.6: Chart shows Funding of Domestic Investment



Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

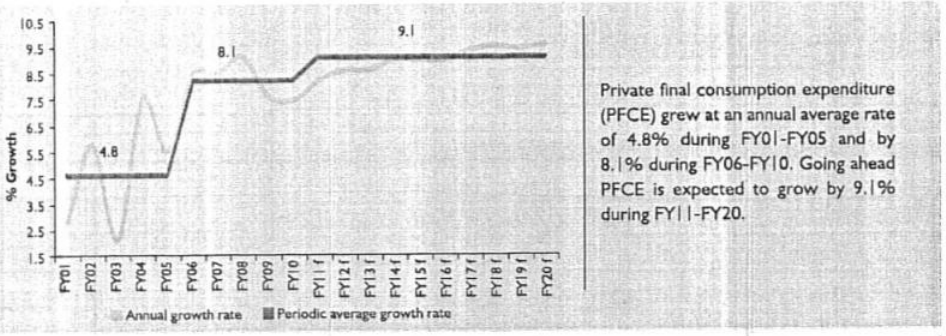
A main proportion of investment would be financed by domestic savings, which depicts lesser recourse to external finance. According to the forecasts by analysts, aggregate savings as a percentage of GDP is anticipated to rise to 38.8% in FY20, as against 33.7% in FY10; domestic savings would mainly be driven by increasing income levels. Additionally, a rising middle class

Notes

population and altering age composition of the country are anticipated to assist raise saving rates.

Share of discretionary spending expected to rise: Increasing income levels coupled with rising young working-age population will result in vital growth in private final consumption expenditure. According to the projections, expansion in private final consumption expenditure is anticipated to average at nearly 9.1% during FY11-FY20.

Figure 2.7: Growth in Private final Consumption Expenditure

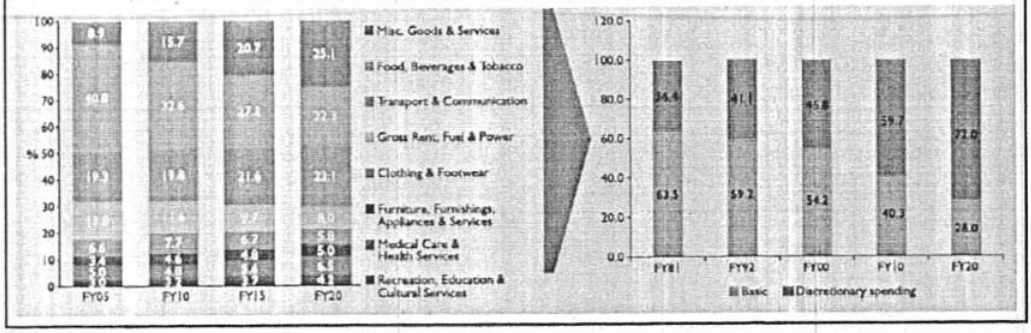


Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Though consumption will persist to be the main contributor to GDP during the present decade, its share is anticipated to decline slowly. The share of private final consumption expenditure in total GDP (at constant market prices) is anticipated to decrease to 57.6% in FY20 from 58.5% in FY10. This will be mainly due to vital increase in domestic investment activity.

Additionally, the analysis of consumption expenditure data discloses an altering pattern of private final consumption expenditure during the present decade. The share of spending in fundamental goods (beverages & tobacco, food, and clothing & foot wear) in private final consumption expenditure is anticipated to decline considerably to 28.0% in FY20, versus 40.3% in FY10. On the contrary, share of discretionary spending (rent, furniture, recreation & education, medical care, fuel & power, transport & communication) is projected to increase significantly.

Figure 2.8: Chart shows the Changing Pattern of Private Final Consumption



Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

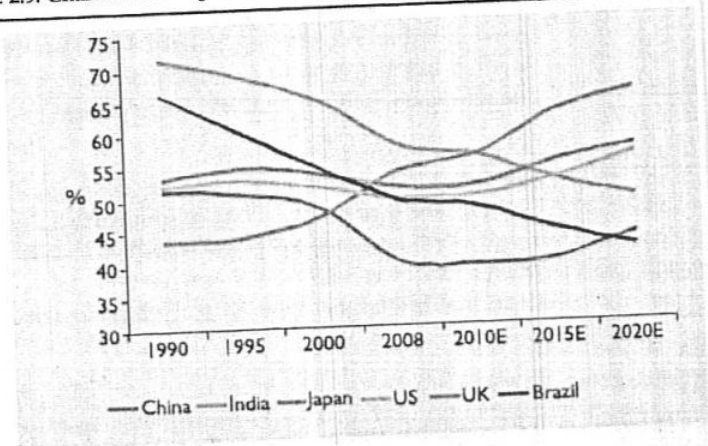
Rising proportion of working-age population: The total population of India is forecasted to rise to 1.3 bn (as per Population projection for India and states 2001–2026; Report of the Technical group of Population; Projections comprised by the National Commission on Population May 2006) in 2020 from 1.2 billion in 2011, according to Census of India estimates. The crude birth rate is forecasted to decrease to 18.0 during 2016–20, as against 21.3 in 2006–10, because of falling levels of total fertility. On the contrary, the crude death rate is anticipated to decrease marginally to 7.1 during 2016–20, in comparison to 7.3 during 2006–10, owing to rise in anticipation of life at birth and enhanced access to medical care.

Notes

Additionally, with decreasing fertility, the proportion of population aged lower than 15 years is projected to decrease from 35.4% in 2001 to 25.1% in 2021. The ratio of the middle (15-59 years) and older age (60+) population, on the contrary, is anticipated to increase considerably by 2020. In fact, the proportion of population in the working age group (15-59 years) is anticipated to increase from 57.7% in 2001 to 64.2% in 2021. Considerable rise in the working age population or a decrease in dependency ratio foretells well for growth momentum of the Indian economy going forward, as it will lead to ample supply of labour for productive reasons and in turn result in rising income levels.

Additionally, with quick industrialisation and development of Tier II and Tier III cities, the urban population in the country, which was 28.0% in 2001, is anticipated to increase to 32.1% in 2020.

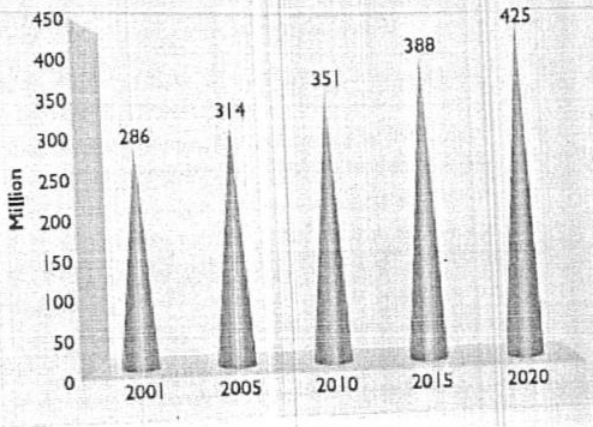
Figure 2.9: Chart shows Population Dependency Ratio for India Expected to Decline



E: World Bank estimates
Note: The dependency ratio is the ratio of the sum of the population aged 0-14 and that aged 65+ to the population aged 15-64.
Source: World Bank

Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020 asp

Figure 2.10: Chart shows Growing urbanization in India



Source: http://www.dnb.co.in/India2020economyoutlook/Macro_Economic_Outlook2020.asp

Self Assessment

Notes

State whether the following statements are true or false:

11. Pressures on natural resources will exacerbate during the current decade.

12. Infrastructure will be both a cause and a consequence of economic growth during the current decade.



Case Study **India @ 2050**

The global economy is going through an upheaval and there are great uncertainties ahead. The global economic recession and crisis has, quite expectedly, impacted India, too. But it is a moot point whether the Indian economy is affected more by the global economic ups and downs or by India's structural and political problems and economic management or mismanagement.

Whatever be the case, there is very significant global interest in the Indian economy. Along with China, Brazil, Indonesia, and a few other countries, India promises great potential of growth in the next few years and decades. The future of the Indian economy is thus a significant concern among the global financial and business community, economic policy-makers and managers, multilateral financial institutions, economists and other academics as well as investors and consumers in India.

If one looks at the numbers, the significant global interest in India is not surprising. It is well known that - on a purchasing power parity basis – India is already, at over USD four trillion of GDP, the fourth largest economy in the world; very close to the size of the Japanese economy, the third largest. In the next 15 to 18 years this size is expected to grow, as per various studies and estimates, four to five times. As a result many foreign investors and a majority of global companies and businesses are making a beeline for the Indian market, which promises a booming middle class of a few hundred million consumers, expanding steadily in the next few decades.

Where will the Indian economy go from here? In the three to four decades after independence, the Indian economy was characterized by the 'Hindu rate of growth', growing at about 3.5 per cent per annum. In the next two decades it grew at seven to eight per cent per annum, but the growth rate is under strain in recent years of global economic turbulence.

What lies beneath these numbers? What insights do we have about the Indian economy to help us analyse and perhaps 'decode' what trajectories it may follow in the coming years? Moreover, besides the overall numbers, what about rising inequality and financial inclusion? What about hundreds of millions of Indians living in abject poverty, without bank accounts and any access to credit? Hardly ten per cent of the country's households participate in the capital market. What about chronic malnutrition among children? What about the lopsided 0-6 age-group child sex ratio that has declined further from 927 in 2001 to 914 in 2011? What about poor marketable skills among a big portion the huge and growing young population? What about the condition of India's universities and polytechnics? And also, what about the political culture and institutions of governance, shaken by scams, scandals and corruption day in and day out?

What about ecological sustainability? What about energy security for a growing and urbanizing economy, considering that current per capita energy consumption levels are very low? What is the state of Indian rivers, and of the environment in its cities? Is India ready to deal with the challenge that climate change poses? Do the visions and analysis of economic growth in India address these issues? In the long run, the state of

Contd...

Notes

natural resources and ecological wealth, that dominant economic models may not even have ways to measure, is going to be critical.

The assessments and insights of observers are both optimistic and pessimistic. Arvind Virmani argues that India is on course to be a global superpower in a tri-polar world, with USA and China as the other two poles. Edward Luce notes the strange rise of modern India, 'in spite of the gods'. Gurcharan Das thinks that India only 'grows at night, while the government sleeps'. But there are limits to this strong society-weak state syndrome, and he cautions that India needs a strong state, too, if it has to continue to grow. Pranab Bardhan focuses on the institutional and structural weaknesses of India (and of China), noting that the awakening giants have feet of clay. Raghuram Rajan looks at India's strengths and weaknesses, but notes that many of the weaknesses will have to be overcome if India has to continue on the growth track. Ruchir Sharma's assessment is on similar lines. Noting the bloated government, crony capitalism and other problems, he gives India only a fifty per cent chance of continuing its journey as a rapidly growing 'breakout nation' during the next decade.

In sum, does India stand a chance of becoming a robust and resilient economy and politically capable of addressing the massive issues that this nation of 1.2 billion (projected to grow to 1.5 billion) people faces in the next few decades? Will India muddle through in the decades ahead, as it always seem to do – often coming back from the brink? In fact, some observers believe that India's governance and economic systems respond only to crises! Or will it thrive and truly take up a global leadership position? Will the Indian elephant dance?

An earlier special issue of Futures that was put together in 2004 dealt with many different aspects of the Indian future(s). This issue, while dealing with India, however, is more focused on the Indian economy, business and the financial system, but considered very much in the context of overall Indian society. It is not meant to be an issue only by and for the economists. It is an issue for the whole global community interested in the Indian story and perhaps a uniquely Indian model of development, that is significant for many different reasons, not the least being that India is a sixth of the global population and is yet a democratic, 'thriving anarchy' – to use a term I used in the special issue on Indian Futures in 2004. The travails of Indian economic and social development have to be seen in this context, not forgetting that only six and a half decades ago this was a poor, fragile nation just coming out from two centuries of colonial domination. Seen from this point of view, the 'India story' sometimes sounds quite remarkable. And hence an important fixture in the future landscape.

Questions:

1. Does India stands a chance of becoming a robust and resilient economy?
2. Write the case facts regarding the future of Indian Economy.

Source: http://www.journals.elsevier.com/futures/call-for-papers/india-2050-the-future-of-the-indian-economy/

2.6 Summary

- India is developing into an open-market economy, yet traces of its past autarkic policies remain.
- Economic liberalization, including industrial deregulation, privatization of state-owned enterprises, and reduced controls on foreign trade and investment, began in the early 1990s and has served to accelerate the country's growth, which has averaged more than 7% per year since 1997.

Notes

- India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services.
- India's economic growth began slowing in 2011 because of a tight monetary policy, intended to address persistent inflation, and a decline in investment, caused by investor pessimism about domestic economic reforms and about the global situation.
- The Indian economy is estimated to have registered a growth rate of 5.0 per cent in 2012-13 in terms of gross domestic product at factor cost at constant 2004-05 prices, following a growth of 6.2 per cent in 2011-12.
- In a climate of rapid globalization, India's information technology industry has grown dramatically.
- Globalization is overtaking the Indian economy thanks to the rapid growth of foreign trade and direct investment.
- The rising incomes and urbanisation will boost demand for infrastructure investment in sectors such as electricity, roads, telecom etc.

2.7 Keywords

Capital formation: Capital formation means creation of physical assets and non- physical capital consisting of public health efficiency, visible and no visible capital.

Consumer Price Index: The Consumer Price Index (CPI) captures the retail price movement for different sections of consumers.

Gross Domestic Capital Formation (GDCF): Gross domestic capital formation is the addition to the capital stock within the domestic territory of a country during a year. The surplus of production over consumption during a year adds to the capital stock of a country.

Index of Industrial Production (IIP): The Index of Industrial Production (IIP) is a single representative figure to measure the general level of industrial activity in the economy. It measures the absolute level and percentage growth of industrial production.

Purchasing Power Parity (PPP): An economic theory that estimates the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power.

Wholesale Price index: WPI is used to measure the change in the average price level of goods traded in the wholesale market.

2.8 Review Questions

1. Describe the Indian Economy as a developing economy.
2. Discuss about Indian Economy- a developing economy
3. Describe the current state of Indian Economy.
4. What are the characteristics features of Indian Economy?
5. Discuss the challenges faced by the Indian economy.
6. Write an essay on the Future of Indian Economy- 2020
7. How is the price movement in the country reflected?
8. Define WPI.

Notes

9. What is Index of Industrial Production?
10. Name the employment schemes started by Indian government.

Answers: Self-Assessment

1. Index of Industrial Production (IIP)
2. Price movement
3. economic indicators
4. telecom
5. Wholesale Price Index
6. Foreign Institutional Investors
7. highly-skilled
8. backwardness
9. Jawahar Rozgar Yojna, and Self Employment Scheme for Educated Unemployed Youth.
10. Self-Employment Scheme for Educated Unemployed Youth
11. True
12. True

2.9 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.worldbank.org/en/country/india/overview

http://indiabudget.nic.in/ub2013-14/frbm/frbm1.pdf

http://www.econ.yale.edu/~srinivas/Indian%20Economy%20Current%20Problems%20and%20Future%20Prospects.pdf

Unit 3: Economic Growth and Development: A Contrast

Notes

CONTENTS

Objectives

Introduction

3.1 Economic Growth

3.1.1 Importance of Economic growth

3.2 Distinction between Economic Growth and Economic Development

3.3 Measurement of the Economic Development

3.3.1 Use of per Capita Income as an Index of Economic Development

3.3.2 Limitations of Per Capita Income

3.3.3 Suggestions

3.4 Summary

3.5 Keywords

3.6 Review Questions

3.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss Economic Growth and its importance.
- Distinguish between Economic Growth and Economic Development
- Explain how to measure the economic development
- Discuss the use of per capita income as an index of economic development
- Describe the limitations of per capita income

Introduction

Economists have always been aware that growth is a necessary ingredient for economic development. Economic development and change are portion of the usual experience of economic life of societies. Economic development is a wider notion than economic growth. Development depicts social and economic progress and needs economic growth. Growth is an important and essential condition for development, but it is not an adequate condition as it cannot guarantee development. Economic growth happens whenever economic agents take resources and reorganise them in manners that are more valuable.

The term 'economic development' is usually used in many other synonymous terms like economic welfare, economic growth, secular change, economic progress and social justice. As such, it is not simple to give any accurate and clear definition of economic development. However, in view of its scientific study and its popularity, a working definition of the term appears to be quite necessary.

3.1 Economic Growth

Economic growth is depicted as the increase of per capita real gross domestic product over the duration of time. Actual GDP is a quantitative concept as it involves enhanced productive capacity

Notes

in an economy, which results in increasing national output, incomes and living standards over time. Procedure of economic growth is necessarily a dynamic concept and depicts a continuous expansion in level of output, that is it refers to forces that produce a positive rate of change over time and not the forces that result in discrete (or one shot) change from a lower to higher stage of output which are temporary and short lived. Economic growth can happen from two chief factors:

1. The enhanced use of resources like capital, land, labour, and entrepreneurial resources due to improvements in technology.
2. The increased productivity of prevailing resources used via enhanced labour as well as capital productivity.

3.1.1 Importance of Economic growth

The relationship between wealth arising from rapid growth and happiness is tough to establish. As there is absence of unambiguous proof that rich are happier than the poor, or that individual become happier as their incomes rise.



Notes In so far as economic growth results from alertness in seeking out and seizing economic opportunities, it is to be expected that it should be associated with less happiness.

There are many more benefits of the process of growth. Few of these are enumerated below:

1. The benefit of economic growth is not that it enhances happiness but it develops potential for broader range for human choice (tangible and intangible). In other words, economic growth offers us freedom to enjoy higher leisure or more material wealth (in shape of goods and services) or some combination of the both. In poor countries about 50–70 per cent of population works in agriculture to feed everyone while in rich countries lower than 10 per cent are sufficient to do the job. Hence, in the latter countries there are much greater number of people who are available for other activities (like education, medical science, scientific research, entertainment etc.). Hence, economic growth makes it possible to liberate people from fundamental task of growing food to more complicated and interesting economic activities.
2. Quick economic growth is one of the vital instruments to resolve social tensions which tend to arise from varied segments of populations attempting to extract more and more than what they already have.

   Example: Workers asking for higher wages, education, better housing, health and other amenities.

   In case the level of income in the economy is stagnant then wishes of one group could be catered to only at the cost of the other groups which incline to cause social conflicts. Through quick economic growth this conflict to a very large degree could be avoided. Because of this reason, policymakers and political leaders should require no convincing for the urgency of inspiring growth (Lewis, 1955).
3. What differentiates humans from the other creatures is that we have higher control on our environment but not that we are happier. So, from this viewpoint, economic growth is desired immensely. There is no doubt that economic growth raises control of humans over their environment and thus expands their freedom and horizon. Greater levels of income arising from quick economic growth free life from nature's threats of death and diseases.

Notes

4. In the process of economic growth women are possibly to benefit far more than the men. In majority low income economies, majority of the household tasks are conducted by women and most of these are performed by the mechanical devises in the advanced societies – like washing clothes, grinding grains and dishes, cooking among others. Economic growth shifts most of these and many other tasks such as teaching children, spinning and weaving, minding the sick to external establishments which are specialized at performing these with the scale advantages. In the process women attains freedom from drudgery and gets liberated from seclusion of the household, attains at last the chance for being a whole human being applying her mind and her talents in the same manner as men (Lewis, 1955).

5. Economic growth also allows mankind to involve in the luxury of higher humanitarianism as at greater level of income they can afford to forgo portion of their income to elevate others who have not been so lucky (Lewis, 1955).

6. Economic growth process has been found to be till date the most efficient tool to alleviate poverty. There is plenty of evidence to recommend that income inequalities tends to deteriorate at the initial stages as the economy develops but there is very little proof of deteriorating of poverty. In the literature, this effect of development on poverty is called the trickledown effect. So increasing inequalities and lower poverty incline to go hand in hand in the procedure of economic growth.

Example: The best example of economic growth process is the experiences of India, China and countries of East and South East Asian economies in the previous two to three decades typified by quick economic growth.

This is not an exhaustive list but give us some notion related to how process of economic growth could profit a society and harmoniously its citizens.

Self Assessment

Fill in the blanks:

1. ..... is referred to the increase of per capita real gross domestic product over a period of time.
2. ..... is a quantitative concept since it involves increased productive capacity in an economy, which leads to rising national output, incomes and living standards over time.
3. Rapid economic growth is one of the important instruments to resolve.....
4. ..... reflects social and economic progress and requires economic growth.

Caselet **Development and Growth**

It is fair to assume a broad consensus on that development is a good thing. Of course, development and economic growth are not the same thing. You can have one without the other. For a very materially rich society, development does not require economic growth. It is possible to appropriately channel resources towards development, an exercise in greater allocative efficiency if the resources are available in plenty. But in a materially poor society, merely changing the allocation of resources is not likely to be sufficient. There you have to have increased production, in addition to the problem of efficient allocation of what is produced. The US, for instance, has a per capita annual income of around $28,000. Extreme variance in incomes and wealth can be reduced with appropriate redistributive

Contd...

Notes

mechanisms. Contrast that with India. Yes, there are a lot of very poor people in India. Even perfectly distributing the national income leaves everyone pretty poor. The conclusion is hard to avoid: India needs economic growth for development.

Source: http://www.deeshaa.org/think-big-about-indias-urbanization/

3.2 Distinction between Economic Growth and Economic Development

As discussed above, in the current literature the term *economic growth* depicts increases over time in a country's actual output of goods and services. Output is usually measured by gross or net domestic product (GDP or NDP), via other measures can also be hired. The term *economic development*, in contrast, is much more widespread . It infers progressive alters in the socio-economic structure of a country. Observed in this way, economic development includes a steady decrease in agriculture's share in the GDP as well as a matching rise in the share on industrial sector and of the economic (productive) services. This change in the economic structure is always escorted by a shift occupational structure of labour force and an enhancement in its skill as well as productivity.

In comparison to the goal of development, economic growth is far simpler to realise. This is due to the fact that process of development is far more permeated. Besides a rise in output, it includes alterations in the composition of output as well as a shift in the allotment of productive resources so as to make certain social justice.

Majority times in the discussions people tend to utilise growth and development interchangeably. A growth in the actual income is believed to contribute to usual rise in the standard of living of the people generally. However, growth and development need not be the same. The average per capita income figures are extracted by dividing total real income by the population of the country. However, it does not state anything related to the occupational structure, distribution of income, share of agriculture and industry in economic activity.

Economic Growth is a narrower notion than economic development. It is a rise in a country's actual level of national output which can be resulted by a rise in the quality of resources (by education etc.), increase in the amount of resources & improvements in technology or in another manner an enhancement in the value of goods and services generated by every sector of the economy.



Notes Economic Growth can be assessed by a rise in a country's GDP (gross domestic product).

Economic development is a normative notion, that is. it applies in the background of people's sense of morality (good and bad, right and wrong,). The definition of economic development offered by Michael Todaro is a rise in living standards, enhancement in self-esteem needs as well as freedom from oppression as well as a bigger choice. The majority accurate method of assessing development is the Human Development Index which takes into consideration the literacy rates as well as life expectancy which influence productivity and could result in Economic Growth. It also results in the creation of more chances in the sectors of healthcare, education, employment and the conservation of the environment. It infers a rise in the per capita income of each citizen.

Economic Growth does not take into consideration the size of the informal economy. The informal economy is also called the black economy which is oral economic activity. Development eases people from low standards of living into appropriate employment with proper shelter. Economic Growth does not take into consideration the depletion of natural resources which might result in

Notes

pollution, congestion & disease. Development however is related to sustainability which depicts meeting the needs of the current without compromising future needs. Such environmental effects are turning out more of a problem for Governments at present that the pressure has enhanced on them because of Global warming.

Economic growth is an essential but not adequate condition of economic development.

Self Assessment

Fill in the blanks:

5. Economic development is a ..... concept than economic growth.

6. Economic development is a ..... concept and economic growth is a narrower concept.

Table 3.1 Comparison Chart

Points of Difference	Economic Development	Economic Growth
Implications:	Economic development implies changes in income, savings and investment along with progressive changes in socio-economic structure of country (institutional and technological changes).	Economic growth refers to an increase in the real output of goods and services in the country.
Factors:	Development relates to growth of human capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life.	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.
Measurement:	Qualitative. HDI (Human Development Index), gender-related index (GDI), Human poverty index (HPI), infant mortality, literacy rate etc.	Quantitative. Increase in real GDP. Shown by PPF.
Effect:	Brings qualitative and quantitative changes in the economy	Brings quantitative changes in the economy
Concept:	Normative concept	Narrower concept than economic development
Relevance:	Economic development is more relevant to measure progress and quality of life in developing nations.	Economic growth is a more relevant metric for progress in developed countries. But it's widely used in all countries because growth is a necessary condition for development.

Notes

3.3 Measurement of the Economic Development

In the area of development studies an indicator of how countries as well as regions are advancing is needed, and in the past and present per capita income has been valuable at measuring development across the world.

Per capita income is a valuable economic indicator for an area. Fundamentally, the per capita income is how much income every individual of a population would attain if the region's total income were divided equivalently among all members of the population. Per capita income is frequently utilised as a measure of the wealth of the population of a specific nation, especially when in comparison to other nations.

3.3.1 Use of per Capita Income as an Index of Economic Development

The development in per capita income has been uneven across countries over the years. Few countries have developed at very fast pace while others have trailed behind. In any specific year, one could note large differences in the standard of living among countries. GNP (or GDP) per capita is the most usual approach to measuring the level of development in a country. However, higher per capita income in a country does not always depict that its people are better off as compared to those in a country with lower income, as there are many features of human well-being that these indicators do not catch .

Gross domestic product (GDP) is regarded as a method to assess the level of output generated by the economy in an accounting period. However the control of people over goods is varied than GDP.

Example: We have property outside the country and our nationals are working in other countries. As a result, we earn wage income or property income outside the country. In the same way, foreigners have the same process here. Adjusting for these incomes, we get Gross Domestic Product (GDP).

Here, it must not be forgotten that there is no difference between GDP and GNP. In India, being a large country, GNP is lower than GDP. Furthermore , the consumption of fixed capital in the process of production should be regarded.

Task GDP is the better representative index. Discuss in group.

It should be made sure that the level of capital is kept whole during the year; or else fixed capital will be eaten away. Hence, quantity of capital should be subtracted in the process of production. This is called Net National Product (NNP) which is famously called National Income.

In order to compare the well-being of the people at two points of time, or two economies, size of the population must be calculated. Hence, it is advised that NNPfc should be valued at consistent prices and should be divided by the size of population.

This is called Per Capita Income. In instance of international comparisons, national income should be separated by sizes of their respective populations. This will emphasise on the progress over time.

National income can be assessed both at recent prices and at constant prices. The national income at recent prices includes both alterations in physical production and price whereas national income at constant prices involves changes in the physical production and not prices.

Notes

National income at recent price may modify with the change of prices even though there may be no alteration in the output. As such national income at continuous price should be utilised to study the relationship between national income as well as welfare. National income at constant prices is also called real national income.

Real national income depicts changes in physical production. Enhanced production is shared by the augmented population. It is just possible that the enhanced production may be eaten up and washed away by the excessive rise in population.



Did u know? Per capita availability of goods and services can be measured by real per capita income which is real national income divided by population.

There is a hot debate among economists to use utility of the national income as an index or indicator of well-being of the people. Index, is regarded as a mirror only, mirroring the well-being of the people. Quality of the life depicts standard of living and development index depicts the growth of the economy.

Majority economists sense that national income is not a great measure of standard of living, welfare and the actual growth of the economy. They sense that economic welfare, although imperfect, is not the whole welfare which people search for.

3.3.2 Limitations of Per Capita Income

One of the chief uses of national income data is in assessing the economic welfare of the population via the notion of the standard of living. The fundamental standard for this is to utilise real GDP per person (per capita). Actual GDP per capita does have some restrictions when measuring the standard of living.

- ***Regional Variations in income and spending:*** National GDP figures conceal vital regional differences in output, employment as well as incomes per head of population. Within every area there are also regions of comparative prosperity comparing with unemployment black-spots as well as deep-rooted social and economic deprivation.
- ***Inequalities of income and wealth:*** GDP figures on their own do not depict the distribution of income and the unequal distribution of financial wealth. Incomes as well as earnings may be very unequally distributed among the population and increasing national prosperity can still be escorted by increasing relative poverty.

3.3.3 Suggestions

The suggestions to get over the restrictions of the measurement of per capita income are mentioned below:

1. Distribution of national income of individuals should not be neglected. It has been indicated that the well-being of a society relies on what is the size of cake and how it is spread over usual masses in a country.
2. People have come to relish more leisure over time. But, as per many, this index may be the final am. But its value requires to be added to the national income to attain better outcomes of welfare.
3. Social cost of harmful effects with relation to variety of pollution may also be subtracted.

Notes

Self Assessment

Fill in the blanks:

1. Per capita income is a useful .....
2. ....., is considered as a mirror only, reflecting the well-being of the people.
3. National income at constant prices is also known as ..... income.
4. The average per capita income figures are derived by ..... total real income by the population of the country.
5. Net National Product (NNP) which is popularly known as .....
6. ..... per capita is the most common approach to assessing the level of development in a country.

Case Studies **India versus United States "Case Study on Comparison between Developing and Developed Country"**

Being a developing country, India is not as economically prosperous as the United States. In this case study, we will observe factors of economic growth that allow the United States to be more developed and are being implemented by India in an effort to achieve economic progress.

Figure 1 compares the purchasing power of the world's five largest economies. Both the United States and India are projected to increase their purchasing power by 2020. Furthermore, India is shown to experience a relatively significant increase in purchasing power compared to the other countries; this is exemplified by the fact that even though India's purchasing power is less than that of Japan in 1995, India is expected to have equal purchasing power as Japan by 2020. India must be implementing certain factors, such as foreign investment, that allow for an increase in purchasing power and, thus, economic growth.

Figure 1: Comparison of the Purchasing Power of the Five Largest Economies GDP. (dollars) ("Purchasing")

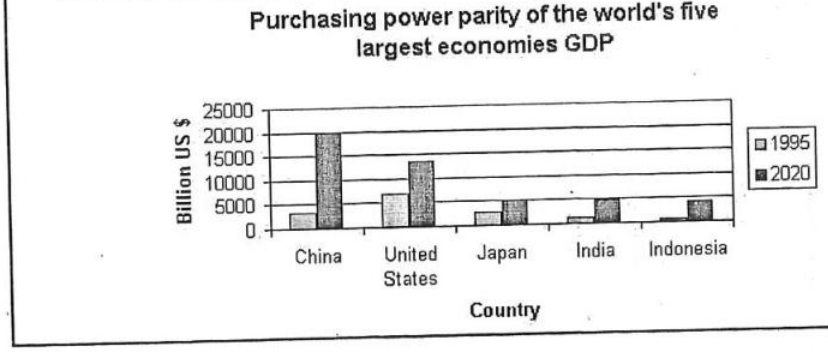
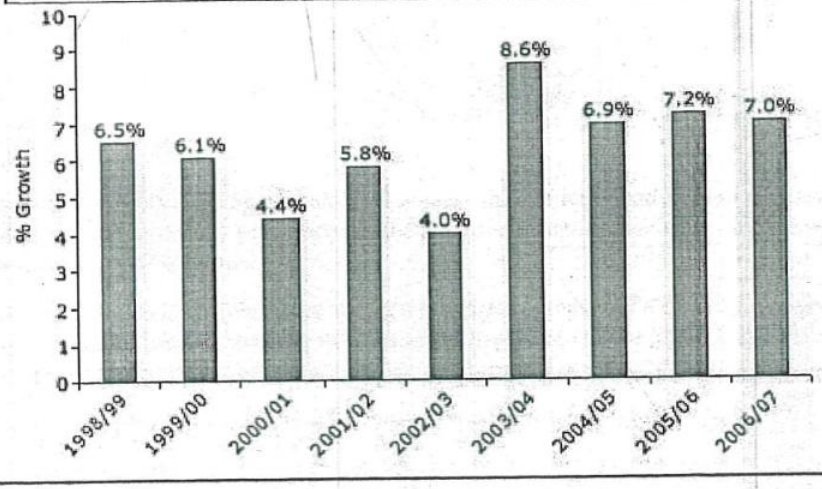


Figure 2 illustrates that while fluctuations are observed when comparing increase in education and economic growth, it can be concluded that an increase in education in India has led to positive economic growth. Thus, India has implemented an increase in education in order to create prosperity.

Contd...

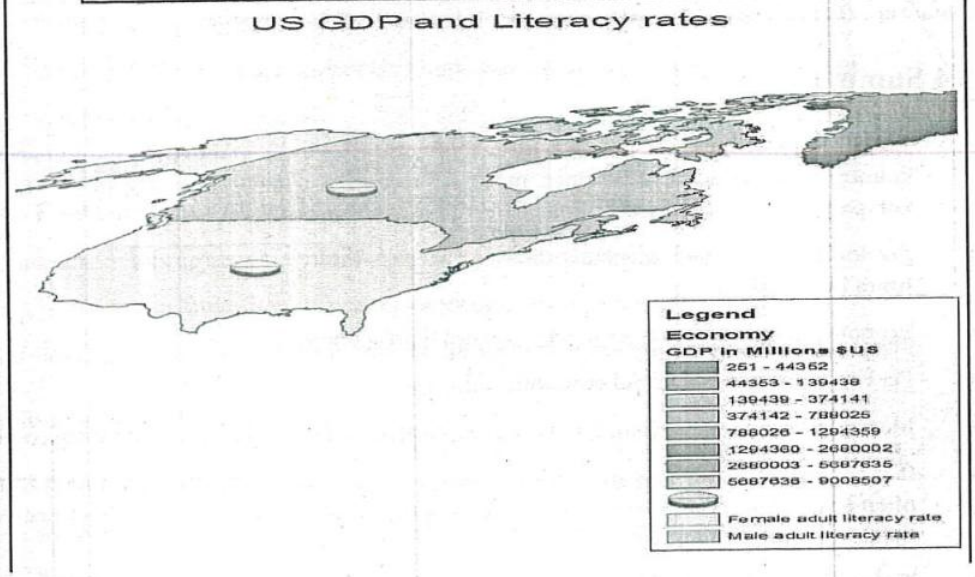
Notes

Figure 2: Comparison of the Increase in Education and Economic Growth From 1998–2007. (Percent) ("Comparison")



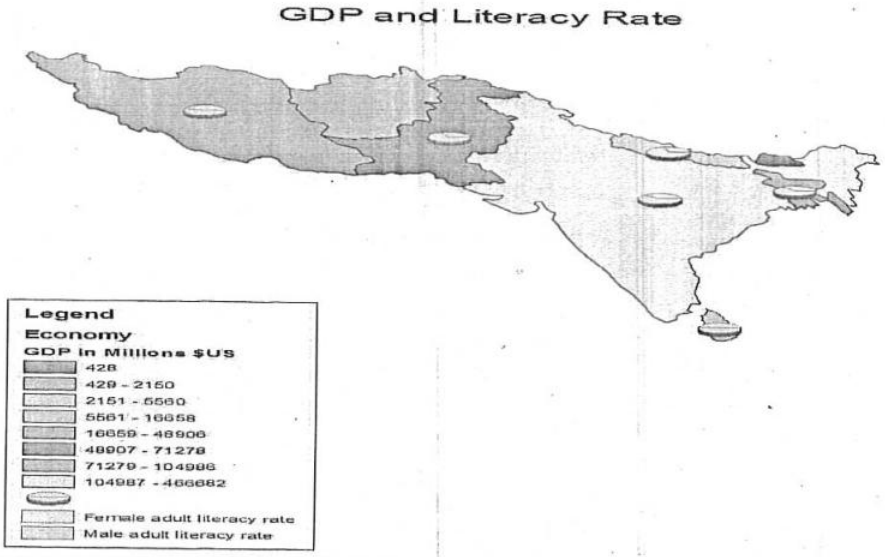
Even though education has increased in India, literacy rates continue to act as an economic deterrent. Figure 3 compares growth domestic product (GDP) and literacy rates for the United States and India. While both countries have high GDP, the monetary value of GDP for the United States is considerably higher than that of India. Figure 3 illustrates literacy rates for males and females in the United States and India. In India, 47% women literate and 70% of the males are literate. In the United States, equal literacy rates exist for men and women, with 97% of both genders being literate. Lower GDP values for India could be caused by the unequal literacy rates between males and females that continue to persist in India, suggestive of the need to implement gender equality to achieve economic growth.

Figure 3: Comparison of GDP and Literacy Rates of the United States and India.



Contd...

Notes



In conclusion, the case study proves that factors besides education contribute to economic growth. India is expected to increase its purchasing power, and thus it's GDP, in the future. While education has increased in India, unequal literacy rates continue to exist and account for the lower GDP of India as compared to the United States. Therefore, gender equality is a factor that is proven to contribute to economic prosperity.

Questions:

1. Differentiate between developing and a developed country.
2. List the factors that contribute to economic growth of a country.

Source: http://sitemaker.umich.edu/sec006group4/case_study__india_versus_united_states

3.4 Summary

- Economic growth may be defined as a rate of expansion that can move an underdeveloped country from a near subsistence mode of living to substantially higher levels in a comparatively short period of time.
- Economic growth and economic development are the two terms used synonymously at times by the people.
- Economic development is a broader concept than economic growth.
- Per capita income is a useful economic indicator.
- Measuring economic development is a complicated and important issue for every country.
- It is important because of the kind of measurement and the conclusions drawn from it often have important policy implications, which can directly affect the lives of people in the developing nations.
- Today, the field of development studies uses a variety of measures, some more popular than others like the use of per capita income as an index of economic development.
- GNP (or GDP) per capita is the most common approach to assessing the level of development in a country

Notes

3.5 Keywords

Economic Growth: A simple definition is that it is an increase in the level of output of goods and services that is sustained over a long period of time, measured in terms of value added.

Extensive Growth: This refers to growth in total output level of an economy.

Gross Domestic Product: Measures level of economic activity in an economy's boundaries in a particular time period, normally a year or a quarter.

Gross National Product: The value of all final goods and services produced in a country in one year (gross domestic product) plus income that residents have received from abroad, minus income claimed by non-residents.

Income Per Capita: This is calculated by total *gross domestic product* of a country divided by total population. Per capita income is often used as an indicator of *level of living* and *development.* It, however, can be a biased index because it takes no account of *income distribution.*

Intensive Growth: This refers to growth in per capita output level in an economy.

Quality of Life: People's overall well-being. Quality of life is difficult to measure (whether for an individual, group, or nation) because in addition to material well-being it includes such intangible components as the quality of the environment, national security, personal safety, and political and economic freedoms.

Trickle-down effect: This effect refers to the negative link between incidence of poverty and the process of economic growth.

3.6 Review Questions

1. Describe Economic growth.
2. What are the factors responsible for economic growth?
3. State the advantages of economic growth.
4. What is the difference between economic growth and economic development?
5. What is per capita income?
6. Define GDP.
7. How can you measure the economic development of a country?
8. Explain the use of per capita income as an index of economic development.
9. What are the limitations of per capita income measurement?
10. Give the suggestions to overcome the limitations of the measurement of per capita.

Answers: Self-Assessment

1. Economic growth
2. Real GDP
3. social tensions
4. Development
5. Broader
6. Normative
7. economic indicator
8. Index
9. real national
10. dividing
11. National Income.
12. GNP (or GDP)

Notes

3.7 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). "*Planning Local Economic Development: Theory and Practice.*" SAGE.

Datt Ruddar & Sundharam KPM (2008). "*Indian Economy.*" S chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). "*Economics of Development and Planning*, Volume 2." Atlantic Publishers & Dist.

Mahajan V.S. (1986). "*Economic Development of India.*" Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). "*Development and Planning Economy: Environmental and resource issues.*" Taylor & Francis.



Online links

http://www.tutor2u.net/economics/revision-notes/a2-macro-theories-of-economic-growth.html

http://www.worldbank.org/depweb/english/beyond/global/chapter2.html

http://www.cefims.ac.uk/cedepapp/116_web_unit/page_08.htm

http://www.worldscientific.com/worldscibooks/10.1142/8321

Unit 4: Human Resources and Economic Development

Notes

CONTENTS

Objectives

Introduction

4.1 Human Resources Development

4.2 Roles of Human Resources

4.2.1 Human Resources as Factor Services

4.2.2 Human Resources as Units of Consumption

4.3 Human resources: An important factor of economic development.

4.4 Significance of Human Resource Development

4.4.1 Human Capital Formation

4.4.2 Indicators of Human Resource Development

4.5 Importance of Human Resource Development

4.6 Human Resources are Regarded as vital for Economic Development

4.6.1 Adverse Effect of Population on Economic Development

4.6.2 Population-growth Pattern

4.6.3 Density of Population

4.6.4 Swami Nathan Policy

4.7 Summary

4.8 Keywords

4.9 Review Questions

4.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Define the human resources development
- Describe the roles of human resources
- Explain human resources as an important factor of economic development.
- Analyse significance of Human Resource Development
- Discuss the importance of Human Resource Development
- Describe the reason why human resources are regarded as vital for economic development

Introduction

It has become obvious that social issues that may escort economic growth cannot be left separately until economic development has occurred as development is a never-ending process and cannot be retained in the long run whereas social ills are increasing.

Notes

Additionally, social problems are best and most economically resolved when economic development is occurring and not after the fact. Solving the issue of crime at its starting is exceedingly simpler than after it has taken root or become arranged. Most vitally, it is frequently the pursuit of the single objective of maximizing income growth that results in the social issues in question. The geographic location of industry as well as other economic activities on simply economic principles may lead to the concentration of such activities in and around the main city which requires labour movements that disturb family life with attendant social issues. It may enhance the marginalization of specific areas and groups of the population which are not directly touched by this focused investment thereby increasing the gap between rich and poor inside the nation. It may also lead to a decreasing physical environment and in a social environment that causes social unrest that finally damages the fruits of economic growth. On the other hand, social development, with relation to higher participation of the population in decision-making and in the implementation of development activities, that reduces poverty and promotes equity, that progresses the status of women and assimilates youth in the development process and that insures, generally, a more humane social environment, itself plays a main positive role in the long-run intensity as well as sustainability of economic development. In this unit, you will learn related to human resources and their significance in the economic development.

4.1 Human Resources Development

The human resources play dynamic function in the development of a country. Human resources development is the process of raising the skills, the knowledge, and the capacities of all the people in a society. In economic terms, it could be explained as the accumulation of human capital and its efficient investment in the development of an economy. In political terms, human resources development makes ready people for adult participation in political processes, especially as citizens in a democracy. From the social as well as cultural viewpoints, the development of human resources assists people to direct fuller and richer lives, less tied by tradition. In brief, the processes of human resources development open the door to modernization.

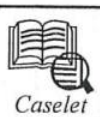


Notes The human development approach is one that calls for a simultaneous treatment of economic and social aspects of development.

Self Assessment

Fill in the blanks:

1. In ..... terms, Human resources could be described as the accumulation of human capital and its effective investment in the development of an economy.
2. The processes of human resources development unlock the door to .....



Caselet **No Square Pegs in Round Holes**

India's strength lies in its demographics which will determine everything that a country does. More than 50% of India's population is under 25. Dr Narendra Jadhav, a principal advisor to the RBI and a former advisor to the executive director at the IMF, says "India has a great potential to become an economic super power because of its growing young population." A young population coupled with the second largest English -speaking population in the world will give India an advantage over China. But this

Contd...

Notes

young population though dynamic and rearing to go are also a restless lot looking around for newer opportunities. Hence, attracting and placing the right people with the right skills in the right position by identifying the essential skills, interest, aptitude, attitude and behaviors is the first step to developing a knowledgeable and committed workforce. The contribution made by the knowledge driven quality professionals with relevant industry-oriented skills will tip the global scales in the country's favor and establish it as a "superpower" in the market.

Source: http://thealps.co.in/the-role-of-hr-in-making-india-an-economic-super-power/

4.2 Roles of Human Resources

Human resources are available in two functions, viz. (A) as factor services, as well as (B) as units of consumption.

4.2.1 Human Resources as Factor Services

Human resources, as factor services, offer labour and entrepreneurship. More people depict more resources.

As such, population growth does add to economic growth, and not trivially. Few of the vital points to be considered from this viewpoint are as follows:

1. *Minimum Scales:* Few infrastructures are only profitable with minimum density levels. Industrial output in several regions is subject to sturdy economy-of-scale effects. Where division of labour as well as scale economies are restricted by small populations, a raise in the number of people can have a positive scale influence that increases productivity as well as investment.

   Example: Some infrastructures which are profitable with minimum density are roads, dams, ports, and irrigation systems.

2. *Demographic Transition and Savings:* Urban Development Committees (UDCs possess populations with a great proportion of young dependents. When the child dependency ratio is large, the population comprises of a comparatively large number of dependants consequently consumption will be high as compared to earnings and saving activity will be low. At the time of the demographic transition, the number of workers increases relative to consumers, income increases relative to consumption and savings hike.

3. *Capital Formation in Agriculture:* In agriculture the investor, saver, and producer of capital are frequently the same unit – the family farm. In the off season, the family tidies new land, irrigates, constructs fences and barns, builds roads, dykes and wells. With greater population growth, the farmer and his family will place more hours on this kind of capital formation raising the agricultural capital stock.

4. *Labour Force Participation:* Greater dependency ratios go along with increasing rates of population growth. This may influence labour force participation with relation to hours worked, entry as well as retirement age, and women's employment beyond house.

5. *Trade Specialisation:* In the Heckscher-Ohlin model of trade, where a country majors in and exports goods that embody comparatively large quantities of its plenty factors, a high growth rate in one factor (labour) would facilitate the country to specialise in goods utilising that factor intensively. Presuming the nation is already exporting labour-intensive goods, it would merely specialise more and trade more. The developing labour supply facilitates the country to take part more in trade, and the profits it receives assist to offset diminishing returns.

Notes



Example: The average cost of employing labour in Europe, including social and welfare costs, is $ 20 an hour, $ 19 in the United States and $ 18 in Japan – and a rough average of $ 1.65 in most of Asia.)

6. ***Technological Changes:*** The speed of technological change may pick up if there is a greater talent pool from which to attract people for works on several frontiers of science.

7. In brief, as factor services, human resources have to play a distinct and important role in the process of economic growth. But, it is not merely the big size of population that matters, what is equally, if not more, vital is the quality of population. As accumulators of skills, innovations, knowledge, inventions, discoveries as well as technical know-how, there are no alternatives to this factor resource.

4.2.2 Human Resources as Units of Consumption

In their function as units of consumption, human beings place a demand on the national product of the economy. In this ability their number counts. If the size of population is over what can be absorbed by the national product, that is, if there is over-population, it results in numerous problems, among which the most vital are as below:

1. An increasing population places demands on food stocks of the country; not infrequently a broad gap appears between needs and available supplies. This results in acute scarcities as well as shortages.

2. An increasing population also infers that a large portion of the nation's output is utilised in meeting the recent consumption needs, only a little balance is left towards meeting the investment requirements. This decreases the process of capital creation and thereby of development.

3. A huge population also adversely influences the balance of trade of a UDC. Such a country requires imports of industrial raw materials and capital goods to cater to the needs of economic growth. But when its needs for food are greater than the accessible domestic supplies, it has to divert its limited foreign exchange resources to food imports. The selection may quite frequently be a tough one, so that it selects to carry the burden of trade deficit.

4. A direct result of over-population is the issue of unemployment with all its attendant evil results, both economic and social.

5. The social overhead capital needs of a country keep rising with additions to the population. This depicts that again its investment resources become distracted from physical capital to investment in manpower resources.



Notes In a nutshell, rapid population growth is a handicap, like extra weight carried by a race-horse. It presents an obstacle to growth of living standards, in as much as it acts as barrier to capital accumulation and capital deepening, retards the rate of productivity growth and, in general, adds more to the numbers to be supported than to the level of output.

To summarise the discussion so far, it is usually agreed that a big population may not essentially either be an asset or a liability. It relies more on the quality of population. The quality of population is a dynamic notion. The quality of population can always be enhanced by framing and executing quality – improvement programmes. Expenditure on these programmes forms investment to build up human capital, as opposed to physical capital.

Notes

Self Assessment

Fill in the blanks:

3. Industrial output in many areas is subject to strong ..... effects.
4. A large population also adversely affects the ..... of a UDC
5. Higher ..... ratios go along with rising rates of population growth.
6. UDC means .....

4.3 Human resources: An important factor of economic development.

Human resources are vital factors of economic development. It is mentioned that the prosperity of a country is decided by the skill, efficiency as well as attitude of the labour utilised by that country. Majority countries have been able to develop themselves because of the capacity, will, and skill of their human resources.



Example: The countries like Japan, Singapore, Germany, and Hong Kong have been able to achieve economic miracle by mobilizing their human resource.

- ***Utilisation of natural resources:*** The natural resources such as water, mineral, oil and forest are used by the human resource. The utilisation of natural resources raises the national income. The per capital income as well as living standards of the people rise. The dearth of suitable human resource is one of the reasons of non-utilisation of natural resources in world.
- ***Compensate the deficiency of natural resources:*** The use of human resource reimburses the deficiency of natural resources. Majority countries poor in natural resources have been able to acquire great economic and human development based on the human resources.
- ***Utilisation of physical capital:*** High prevalence of physical capital is a guarantee of development. They should be appropriately utilized. They are used by human resource. Human resources are necessary to run machinery and equipment and to operate factories and industry.
- ***Increase production:*** The educated, skilled, and healthy human resources raise the productivity as well as production. The production may be conducted even by the usage of unskilled and semiskilled manpower. However, the production of goods quality as well as variety of goods require skilled manpower.
- ***Reform in tradition cultural and attitude:*** The conventional values, culture, intestines and behaviour have been inimical to the growth of developing countries involving world. The educated manpower reforms the conventional cultural and attitude.
- ***Increase in managerial capacity and entrepreneurship:*** Human resources raise the managerial capacity and entrepreneurship. It results in innovation. The new production method, new market and new technology are created. This raises the production as well as national income.
- ***Development of agriculture and industry:*** Contemporary and superior technologies should be utilised for the modernization of agriculture and quick industrialization. This is made likely only by human resource. Theodore Schultz notes "It is simply not possible to have the fruits of a modern agriculture and the abundance of modern industry without making large investment in human being".
- ***Remove economic background:*** Human resource assists directly to eliminate the economic backwardness. It raises labour efficiently as well as specialization. It raises labour mobility

Notes

from which the implementing resources can be made more productivity. The creation of human resources raises the knowledge of natural resources. Latest production method, market and opportunities of economic activities. The human resource also assists in the proper usage of imported capital. These all result in the rise in production, employment chances and levels of living of people.

Self Assessment

Fill in the blanks:

7. Human resource helps directly to remove the economic .....
8. The new production technique, new market and new technology developed increases the production and .....

4.4 Significance of Human Resource Development

Human capital can be described as the body of knowledge owned by the population and the ability of the population to use the knowledge efficiently. Until the late 1950s, no economist and any other social scientist did pay much attention to the function of investment in human beings as a vital determinant of economic development. The birth of this notion can be dated from the presidential address of Prof. Theodore W. Schultz to the American Economic Association in December, 1960. As a consequence, the notion of human capital formation came to focus.

A circular relationship between human development and economic development has come to be set up. Economic growth develops situations for better health and education amenities; which in turn urge economic development.

4.4.1 Human Capital Formation

In the current-day evolving economies like India, HRD is to act among others the given below functions:

1. 21st century will endorse people who react to technology at the Speed of Thought, as Bill Gates has said via the title of his current book. It will decline those who refuse to move quickly enough.
2. There is a technological movement to knowledge based brainpower industries. Brainpower industries do not own a natural home and can be placed anywhere. The smart countries are those who try to make themselves appealing to the brainpower industry by training their people and developing the brainpower via educational institutions.
3. In the knowledge economy, the importance of intangible assets is rising and value of tangible assets is declining. In order to have a cutting edge in this region, the right type of technology is not adequate— instead a suitable organizational climate and the correct people competencies turn more critical.
4. In the current period, the global rate of knowledge creation and dissemination has risen vitally. This, in turn, has resulted in the rapid spread of modern and effective production methods which has led to the world economy becoming more competitive. International trade raises the number of consumers and producers taking part in the market and therefore enhances the level of competition. Hence, the knowledge revolution, along with increased globalization, offers vital opportunities for encouraging economic and social development.
5. Contemporary physical technology, which is turning more and more complicated, needs the backup of an advanced social technology. Social technology includes all advances in skills attained by people individually and jointly.

Notes

6. All the renowned breakthroughs in physical technology would possibly have not even occurred if they were not preceded by important social innovations. The latter nurtured the birth of future advances in physical technologies, and nursed them to maturity.

7. Higher education is trusted to promote independence and initiative, both of which are important intellectual resources for the production and dissemination of knowledge in society.

8. The accessible empirical evidences in nearly all the countries, involving India, set up

   - Positive relation between proportion of people beneath the poverty line as well as the ratio of illiterate persons,
   - Negative correlation between female literacy as well as birth rate,
   - Positive correlation between years of schooling as well as net rise in farm production.

9. Poverty is both a cause and a result of deficiencies in human development. With poverty alleviation at the head of the development agenda, a severe assault on poverty will no doubt attain human beings into emphasis as the main beneficiaries of development. Enhanced public spending on features of human development is more probably to have a greater influence on poverty reduction and, simultaneously, in enhancing human development.

10. HRD is needed to modernize attitudes. A backward social system as well as primitive attitudes and beliefs cannot agree to economic development.

In short, HRD is a vital situation for improving productivity and increasing the level of production which bear the key to economic development. Certainly, the available empirical evidence testifies that poverty stops to be a handicap and turns into an advantage when a poor country constructs human capital and then utilises this cheap, skilled labour together with cheap global capital to generate a world-beating combination. The Davids (UDCs) have already defeated the Goliaths (developed countries) in several areas and have taken over whole sectors of labour intensive production.

4.4.2 Indicators of Human Resource Development

Though Human Resource Development and Human Development are unique notions in their approaches and philosophies, yet because of availability of data on HDI at worldwide level. Human Development Index (HDI) is utilized as approximation as well as indicator of Human Resource Development.

The UNDP has created a composite index of human development called the Human Development Index (HDI). The HDI is founded on three indicators:

- longevity, as evaluated by life expectancy at birth;
- educational accomplishment, as assessed by a blend of adult literacy (two-thirds weight) and joint secondary, primary, and tertiary enrolment ratios (one-third weight);
- Standard of living, as evaluated by real GDP per capita (PPP $). (The HDI discounted or adapted downwards for gender inequality is known as Gender Development Index – GDI)

For the development of the index fixed minimum and maximum values have been set up for each of these indicators:

1. Life expectancy at birth: 25 years and 85 years
2. Adult literacy: 0 per cent and 100 per cent
3. Combined enrolment ratio: 0 per cent and 100 per cent

Notes

4. Real GDP per capita (PPP $) PPP $ 100 and PPP $ 40,000

For any element of the HDI, individual indices can be calculated as per the general formula:

Index = Actual *xi* value – minimum *xi* value / maximum *xi* value – minimum *xi* value

Out of the 169 countries for which the HDI was computed in HDR 2010, 42 are in extremely high human development with HDI over 0.90. 43 are in the extremely human development category with HDI over 0.8, 42 in the medium category with HDI between 0.5 and 0.8, and 42 in the low category.

Self Assessment

Fill in the blanks:

5. ..... is both a cause and a consequence of deficiencies in human development.
6. There is a technological shift to ..... based brainpower industries.
7. The UNDP has developed a composite index of human development known as the .....

4.5 Importance of Human Resource Development

Human Resource is the most significant and vital factor of development or it can be mentioned that humans are the agents of development. Few of the significance of Human Resource or Human Capital are:

- ***Country develops if the human resource is developed:*** To improve economic development the state builds roads, power houses, buildings bridges, teachers, dams, hospitals, etc. to operate such units doctors, engineers, scientist, are required. So in case the state invests in a human resource it pays dividend in response.
- ***Increase in Productivity:*** The better education, enhanced skills, and offer of healthy atmosphere will lead to proper and majority efficient usage of resources (non-natural & natural) which will lead to growth in economic production.
- ***Eradication of Social And Economic Backwardness:*** Human Resource development has a great effect on the backwardness economy and society. The facility of education will raise literacy which will generate skilled Human Resource. Likewise provision of health amenities will lead to healthy Human Resource which will add to the national economic development.
- ***Entrepreneurship Increase:*** Education, good health, clean environment, investment on the human resource, will all display its positive influences. Job opportunities would be developed in the country. And even business environment will prosper in the state which develops several job opportunities.
- ***Social Revolution:*** Due to Human Resource development the socio- economic life of the peoples of a country alters radically . Complete look alters thinking phenomena and liberal thoughts are allowed access into the minds of peoples.



Task Discuss in group on the statement "humans are the agents of development".

Notes

Self Assessment

Fill in the blanks:

12. Human Resource development has an ample effect on the backwardness ..... and society.
13. Humans are said to be the agents of .....

4.6 Human Resources are Regarded as vital for Economic Development

Human resources are important from the viewpoint of economic development. In the initial position, people are utilised as an instrument of production and are accessible as factors of production to work jointly with other factors. Secondly, they are the consumers and the goal of economic development is to expand their economic well-being.

In other words, people are the ways to acquire economic development and also the end in themselves. The nature as well as size of population, hence, is an important factor deciding economic development of a country.

4.6.1. Adverse Effect of Population on Economic Development

Labour, without doubt has a positive contribution in the process of production as well as development of an economy. However a quickly rising population serves as a hindrance on smooth economic progress.

1. Due to quick growth of population, the per capital income in India has stayed either stagnant or depicted a very marginal increase in spite of a considerable rise in national income during the plan periods.
2. The growth of population has developed a severe shortage of food grains for which the country was forced to import food- grains externally .
3. Rising population with growing children raises the number of unproductive population in the country.
4. Increasing population worsens the unemployment problem which is discovered in an under-developed country such as India.
5. The volume of investment declines as an increasing population raises the volume of consumption in our country.
6. A rising population decreases the quality of life of the masses and makes them less effective.
7. Rising population in rural areas results in subdivision as well as fragmentation of land and decreases productivity in the agricultural sector.

4.6.2. Population-growth Pattern

The pattern of India's population-growth can be segregated into three durations over the previous century from the analytical viewpoint, the points of division being 1921 as well as 1951.

The development of population during initial two decades was lower than 16 million persons causing a less than 0.2 per cent growth rate per annum. The purposes for this slow growth can be discovered from a high death rate caused because of natural calamities, epidemics and absence of medical facilities.

Notes

The year 1921 is considered by the Census Commission, as the year of 'Great Divide'. From this year, the death rate decreased considerably because of introduction of better medical amenities in the country whereas the birth rate did not depict any tendency to fall. The net raise in population from 1921 to 1951 was 110 million persons.

After 1951, population raised in the country at a very shocking speed. It nearly doubled itself from 348 million in 1948 to 685 million in 1981. The population raised to 845 million in 1991 and 1,027 million in 2001. The population of India on 1 March 2011 was 1,210 million. India added 185 million roughly to its population since 2001, slightly lesser than the population of Brazil.

The previous two decades have been facing a decline in both birth rate and death rate in comparison to the earlier years. If this trend persists, the anticipated growth rate of population will be lower than 2% per annum.

4.6.3 Density of Population

As per 2001 census, the average density of population per sq. km in India was 324 persons as against 267 in 1991. But according to 2011 census the density of population is 382. It is greatest in Delhi- 11,320, the state of Arunachal Pradesh has the least lowest record of population density having merely 17 per square kilometre. Among the States that have recorded important decline in growth rate are Tamil Nadu, Karnataka, West Bengal, Gujarat, Goa and Kerala. The six most populous States - U.P., Bihar, M.P., West Bengal, Andhra Pradesh and Maharashtra, explain for 60.9 % of the country's population in 2011 census.

Records disclose the fact that males comprise of 628.8 billion of the population while their female counterparts comprise of 591.4 million of the population of India as well as 50% of the population of India comprises of people within the age of 25 years and 65% comprises of people below the age of 35 years. It has also been observed that India comprises of 17.31% of the population of the world. This depicts the fact that out of six people of this world one resides in India. Statistics also disclose that by the year of 2030 India would turn the most populous country of the world placing China behind. One of the chief causes of the sheer increase in India's population is illiteracy.

4.6.4 Swami Nathan Policy

In July, 1993, an Expert Group under the chairmanship of Dr. M.S. Swami Nathan was appointed to frame a draft for the new population policy by the Ministry of Health and Family Welfare. The draft plan was fundamentally related to gender inequality as well as the discrimination against the women. It requires decentralizing the family planning programme to the grass-root level and calls for inspiring one million women members from the Panchayat level to conduct the programme. It further advised the establishment of Population and Social Development Commission to run a Population and Social Development Fund. The committee also indicated that population, poverty and environment degradation has close connection and therefore all the variables should be at the same time manipulated to acquire the goal.



Did u know? The International Conference on Population and Development (ICPD) held at Cairo in 199 also laid stress on empowering women as a means of improving the quality of life, which is same as the India's New Population Policy.

Self Assessment

Fill in the blanks:

14. ....., no doubt has a positive contribution in the process of production and development of an economy.
15. Swami Nathan Policy calls for ..... the family planning programme to the grass-root level.

Notes

Case Study

Human Development and Gender Development in India

Economic development is a process whereby the real per capita income of a country increases over a long period of time. The increase in the quality of human beings by education, health, nutrition, etc., help to increase the physical output (Schultz, 1978). Therefore, human resource development along with physical capital formation plays a useful role in economic development. In fact, effective use of physical capital itself is dependent upon human resources. Therefore, large scale investment is needed in human resources if physical capital available is to be exploited more fully and in a more efficient way (Adiseshiah, 1970).

Human resource development is the process of increasing knowledge, skill and capacities of all the people in a given society (Pramanik, 1980). In economic terms, it means accumulation of human capital and its effective utilization for the development of the economy. Human development and human resource development, though different, are linked by the fact that human development provides the preconditions for human resource development to contribute to economic growth.

A widely accepted indicator of economic well being of a country is its real percapita income, but it gives only a partial picture, ignoring social and cultural aspects of development of people. Morris (1979) defined development in terms of improvement in the quality of life of people. Quality of life has multiple dimensions ranging from economic to social, environmental, political, and psychological and philosophical aspects. Computing a quality of life index involved the problems of choice of indicators and of assigning weights to them. Since all components do not move in same direction, a composite index creates its own problems of interpretation.

After much effort, the United Nations Development Programme (UNDP) unveiled Human Development Index (HDI) in 1990. It was a bold attempt of UNDP to capture the diverse content of multidimensional character of human development. HDI is a reasonable proxy for several dimensions of well being of the people, and most importantly, in the absence of an alternative single measure that better measures human development. It defines human development as a process of enlarging people's choices. These choices are captured by HDI in three fundamental dimensions – a long and healthy life, knowledge level and a decent standard of living. The Human Development Report focused on gender issues also to take into account the struggle of women for their rights and developed a Gender Development Index (GDI) also.

India's achievement with respect to human development has been rather poor, despite elements of human development being a part of India's Five Year Plans (Tilak, 1999). Its spending on social sector (human priority) is reportedly only 2.5 percent of GDP at the end of 1991. The stringent financial situation immediately after 1991 led to a further reduction in social sector spending if the early trends in the sphere continued. Hence, the human development and gender development before and after 1991 would help to understand the social commitment of the governments in India.

Questions:

1. Explain the interrelationship between human development and economic development.
2. Collect the secondary data on male and female life expectancy, adult literacy rate, enrollment ratio in primary, secondary and tertiary, male and female population.

Source: http://www.hss.iitb.ac.in/ties07/paper/ts3/psE/2.doc.

Notes

4.7 Summary

- Human resources development is the process of increasing the knowledge, the skills, and the capacities of all the people in a society.
- The processes of human resources development unlock the door to modernization.
- Human resources are available in two roles, namely, as factor services, and as units of consumption.
- Human resources have to play a unique and significant role in the process of economic growth.
- Human resources in their role as units of consumption, human beings make a demand on the national product of the economy.
- A large population may not necessarily either be an asset or a liability. It depends more on the quality of population.
- Human resources is an important factor of economic development. The prosperity of a country is determined by the skill, efficiency and attitude of the labour used by that country.
- Human capital can be defined as the body of knowledge possessed by the population and the capacity of the population to use the knowledge effectively.
- Economic growth creates conditions for better health and education facilities; which in turn spur economic development.
- Human Development Index (HDI) is used as approximation and indicator of Human Resource Development.

4.8 Keywords

Balance of trade: Balance of trade is defined as the difference in value between imports and exports, said to be favourable to a country when exports are greater.

Economy-of-scale: The reduction in long-run average and marginal costs arising from an increase in size of an operating unit (a factory or plant, for example).

Entrepreneurship: The capacity and willingness to develop organize and manage a business venture along with any of its risks in order to make a profit. In economics, entrepreneurship combined with land, labour, natural resources and capital can produce profit.

Human Capital: Human capital can be defined as the body of knowledge possessed by the population and the capacity of the population to use the knowledge effectively

Human Development Index: Human Development Index (HDI) is used as approximation and indicator of Human Resource Development.

Human Resources Development: It is the part of human resource management that specifically deals with training and development of the employees.

Sustainable Development: The development that meets the needs of the present without compromising the ability of future generations to meet their own needs is called as Sustainable Development.

4.9 Review Questions

1. "More people mean more resources." Comment.
2. How does demographic transition of an economy affect the level and rate of savings in an economy?

Notes

3. Explain in brief the relation between population and technological change.
4. Comment upon "The quality of population is a dynamic concept".
5. Describe the roles of human resources.
6. Why is human resources an important factors of economic development
7. Explain the significance of human resource development
8. Define Human Capital Formation.
9. Describe the importance of human resource development.
10. What are the adverse effects of population on economic development?
11. Explain Swami Nathan Policy.

Answers: Self-Assessment

1. Economic
2. Modernization
3. economy-of-scale
4. balance of trade
5. dependency
6. Urban Development Committees
7. Backwardness
8. national income
9. Poverty
10. Knowledge
11. Human Development Index (HDI).
12. Economy
13. Development
14. Labour
15. decentralizing

4.10 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.ilo.org/public/english/dialogue/actemp/downloads/publications/tanhrd1.pdf

http://ideas.repec.org/a/asi/ijoass/2011p108-116.html

http://unesdoc.unesco.org/images/0018/001852/185231eb.pdf

http://www.slideshare.net/Pranis/human-resource-development-hrd-11728066

Notes

Unit 5: Demographic Features

CONTENTS

Objectives

Introduction

5.1 Demographic Profile of India

5.1.1 Size of Population in India

5.1.2 Growth Rate of Population

5.1.3 Life Expectancy

5.1.4 Infant Mortality Rate

5.1.5 Density of Population

5.1.6 Age Composition

5.1.7 Sex Composition

5.1.8 Rural-Urban Distribution

5.1.9 State of Literacy

5.2 Dependency Ratio

5.3 Theory of Demographic Transition and Window of Demographic Opportunity

5.3.1 Window of Demographic Opportunity

5.3 Summary

5.4 Keywords

5.6 Review Questions

5.6 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the demographic profile of India
- Describe the theory of demographic transition
- Explain the window of demographic opportunity
- Define the dependency ratio

Introduction

Population contributes a vital factor-input, viz., labour, to the development process. It is also the final beneficiary of development. The demographic characteristics of a country associate to the size of population, its structure i with relation to different features, distribution by areas, changes in these over time and space and factors that affect these or are influenced by these, etc. A demographic profile of India can be made ready with the assistance of census data. A census is performed every ten years in our country. The ultimate such census was carried out in the year 2011 with March 1st as the reference date. The current unit offers a detail of the conceptual features associated with the important demographic characteristics of India.

Notes

5.1 Demographic Profile of India

India's demographics hold 2nd rank among the world's most populated countries. With its recent population of over 1.21 billion people (According to Census of India 2011), the country is projected to exceed China and be the foremost populous country in the world. The entire population of the nation is rising at the rate of 1.41 %. Identical to any other demography, Indian demography even projects different information related to the country. Plenty of information can be collected from the demography of our nation as offered in the report posted by the Census Operations of India after Census 2011.



Task Make a report on the demographic profile of India.

5.1.1 Size of Population in India

Some of the vital characteristics of India's demography can be briefly mentioned as follows. The population of India at the turn of twentieth century was only about 238.4 million. This has risen by over four times in the duration of one hundred ten years to touch 1210 million in 2011.

Table 5.1: Where does India Stand Today Globally?

S. No.	Category	Global Ranking
1.	Area	7th
2.	Population	2nd
3.	Labour force	2nd
4.	GDP (nominal)	10th
5.	GDP (PPP)	4th
6.	GDP (nominal) per capita	138th
7.	GDP (PPP) per capita	127th
8.	GDP (real) growth rate	5th
9.	Human Development Index	134th

Source: Demographics of India, Wikipedia, online encyclopaedia.

As depicted in Table 5.1, India ranks 7th with respect to area but 2nd with respect to population pointing out high pressure on land. Though India ranks high with respect to

GDP (nominal, PPP and growth rate), its rank with respect to per capita GDP (nominal and PPP) is extremely less. Low per capita income depicts high poverty in the country.



Did u know? India also ranks poorly in human development index reflecting poor quality of human resources.

5.1.2 Growth Rate of Population

The size of the population of a specific area changes over time via (i) migration and (ii) natural factors such as births and deaths. Migration comprises of two elements: immigration or

Notes

in-migration and emigration or out-migration. The difference between emigration and immigration is known as net migration.

Net migration is insignificant at the national level in India and the development in India's population is, hence, mainly because of natural increase.

The population of India has been constantly rising. But what is important is that the rate of growth of population has decreased in current years. The ratio of the raise in population over a particular duration to the initial population (described as base year population), or the comparative increase to the initial population, depicted as a percentage, is known as the rate of growth of population during the era.

Table 5.2: Compound Annual Growth Rate of Population

1891–1921	0.19
1921–1951	1.22
1951–1981	2.15
1981–1991	2.11
1991–2001	1.93
2001–2011	1.64

As would be observed from Table 5.2, growth rate of population started to accelerate from 1951 onwards, and persisted to rise for the subsequent three decades. After 1981, the rate of growth of population started to decrease.

5.1.3 Life Expectancy

The mean expectation of life at birth is the greatest statistical measure of the health situations and of the usual level of mortality of a community. In case the death rate is high and/or death happens at an early age, life expectancy will be low; on the contrary, if the death rate is low and/or death takes place at an advanced age, life expectancy will be great.

Life expectancy ranked at 63.4 years in 2007. It is greater among females than males. Life expectancy among females for years 2011-2015 is estimated at 69.6 years contrary to 67.3 years for males.

5.1.4 Infant Mortality Rate

The Infant Mortality rate in India was 204 at the starting of the twentieth century; during the past ten decades, there has been a noticeable fall in the rate. Currently, it is being projected at 64 per thousand - 44 in urban regions and 70 in rural. The below five mortality rate has fallen from 236 in 1960 to 85 currently.

5.1.5 Density of Population

The density of population assists to decide the magnitude of the burden that land is being called upon to conduct and to decide the future capacities of the growth. The density of population is computed as a ratio of number of persons per sq. km of land region. As per 2011 census, the density of population in the country is 324 (estimated to increase to 426 in 2026). It is in this sense determined that India is already a densely populated country and that more additions are probably to add only more burden on land.

Notes

Density of population is defined as population per square kilometre (sq. km.) of land area. Thus,

$$\text{Density of Population} = \frac{\text{Population living in a geographical area}}{\text{Land Area in square kms. of the geographical area}}$$

The population of India is not distributed evenly within the country. Few regions in the country such as Delhi (density - 9340), Kerala (919) and West Bengal (903) are more densely populated than others. Hilly regions such as Arunachal Pradesh (13), Jammu & Kashmir (109), Himachal Pradesh (109) and Uttaranchal (159) and territories with big forest regions such as Andaman & Nicobar Islands (43), Chhattisgarh (154) and Madhya Pradesh (196) and the State with a desert, viz., Rajasthan (165) are more thinly populated than others.

5.1.6 Age Composition

The age as well as sex composition of population at any time is the outcome of past trends in mortality and fertility. With the decline in the birth rate, the age structure of population is possibly to change. Initially, the dependency ratio is likely to decline (there will be two active people for one dependent). Secondly, the ratio of working population is possibly to increase. The growth rate of the labour force is estimated to be quicker than that of the population.

5.1.7 Sex Composition

Sex ratio is a strong indicator of the social health of any society. It offers the ratio of women to men in the population and shows the relative possibilities of survival of women as compared with men. Sex ratio in India has been traditionally negative or, in other words, unfavourable to females. It ranked at 940 in 2011. There are six probable explanations given for decrease in sex ratio.

1. An advanced undercount of women in comparison to men in various censuses,
2. A raised discrimination of females (involving infanticides) in offering the least nutrition, access to health and other facilities;
3. Rise in the ratio of male selective migrants from other countries;
4. Decrease in foetal wastage leading to decline in female-male ratio at birth;
5. Female choosy termination of pregnancy
6. Trailed effect of trivial sex differences in mortality at young ages continuing over a long duration of time.

5.1.8 Rural-Urban Distribution

While there has been an on-going increase in the number as well as the ratio of people staying in urban regions during the last few decades, due to the better job opportunities in urban regions, people from rural regions are moving to urban regions. The percentage of urban population in total population has increased from 17.1% in 1951 to 32% in 2011.

5.1.9 State of Literacy

Literacy level as well as educational attainment is important indicators of development in a society. Accomplishment of universal primary education is one of the Millennium development objectives of the United Nations to be acquired by 2015. Literacy rate has increased up to 74.04% in 2011. The literacy rates for males and females work out to be 82.14% and 65.46% respectively.

Notes

Self Assessment

Fill in the blanks:

7. India's demographics occupy ..... rank among the world's most populated countries.
8. Low per capita income indicates high ..... in the country.
9. With the fall in the....., the age structure of population is likely to change.
10. ..... and educational attainment are vital indicators of development in a society.
11. ..... is a powerful indicator of the social health of any society.
12. The difference between ..... and immigration is called net migration.

5.2 Dependency Ratio

Children and elders, i.e., those in the age groups of 0–14 and 60+ are anticipated to be looked after by the working age population 15-59. The age structure of the population by age groups 0–14, 15–59 and 60+ facilitates us to look at the population with respect to the size of the working age population compared with the size of those reliant on the earnings of the working age population. Few utilise the age groups 15-64 and 65+ rather than 15-59 and 60+. The proportion of dependents (population in the age groups 0–14 and 60+) to the working age population (age group 15–59) is known as the dependency ratio (DR). This depicts the burden per member of the working age group population. A positive dependency ratio tends to boost savings. This is obviously possible only in case the working age population is productively hired.

$$\text{Dependency Ratio} = \frac{(\%\ \text{under } 15) + (\%\ \text{over } 65)}{\%\ \text{between } 15 \text{ and } 64} \times 100$$



Example: This worked example should make the concept clearer. Pakistan, which is a developing country, has 41% of its population less than 15, and 4% over 65. This makes 55% (100 – (41 + 4)) between the ages of 15 and 64.

$$\text{Dependency Ratio} = \frac{(41) + (4)}{55} \times 100$$

$$= \frac{45}{55} \times 100$$

$$= 81.8$$

The dependency ratio (percentage of working-age population) in India was last recorded at 54.34 in 2011, as per a World Bank report issued in 2012. The Dependency Ratio for India has fallen. This is as the ratio of children in the country's population has decreased over the period.

Countries that have a great dependency ratio possess more people who are not of working age, and lesser who are working as well as paying taxes. The greater the number, the more people that requires taking care of.



Did u know? The proportion of children in Kerala's population is smaller than the proportion at the national level.

Notes

Self Assessment

Fill in the blanks:

1. The ratio of dependents (population in the age groups 0–14 and 60+) to the working age population (age group 15–59) is called the .....
2. A favourable dependency ratio tends to boost .....
3. The ..... the number of working population, the more people that needs looking after.

Caselet **China's Dependency Ratio: Who Will Look after its Aging Population?**

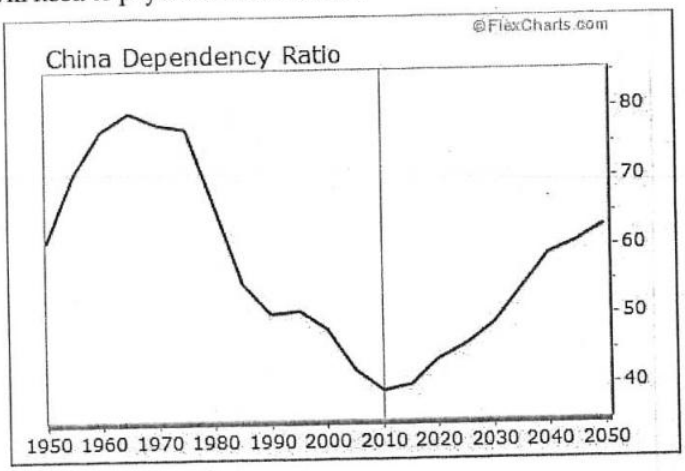
Imagine if you restricted your population to the point where families were only allowed to have one child over a 30-year spell.

You'd initially have a great dependency ratio with fewer children to care for, which would spur shorter-term growth.

But that artificially restrained younger generation would eventually have to care for its aging parents.

That policy is actually a reality. In China, authorities estimate that this prevented 250 million births between 1980 and 2000.

And you can see how that lower dependency ratio has contributed to China's explosive growth. With the ratio currently less than 40% China is in a perfect position. Unfortunately, the country will need to pay for it in the future.



Now, this doesn't mean that Chinese stocks will dip over the next few months... but it might happen sooner than you'd think.

According to Wang Feng, a professor of Social Development at Fudan University: *"The consistently low birth rate since the 1990s will cause a noticeable contraction in newly available labour. The section of the population between 20 and 24 years of age will decrease sharply from 125 million in 2010 to just 68 million in 2020 – a 50% decline in only 10 years."*

Source: http://www.investmentu.com/2010/January/the-dependency-ratio.html

Notes

Self Assessment

Fill in the blanks:

1. The ratio of dependents (population in the age groups 0–14 and 60+) to the working age population (age group 15–59) is called the .....
2. A favourable dependency ratio tends to boost .....
3. The ..... the number of working population, the more people that needs looking after.

Caselet **China's Dependency Ratio: Who Will Look after its Aging Population?**

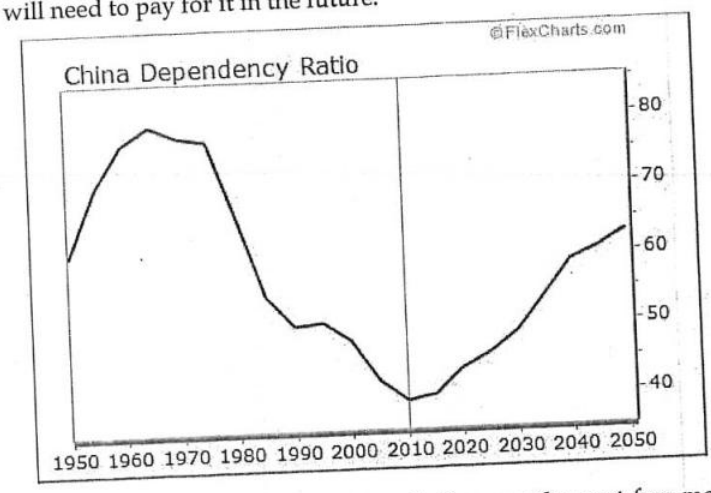
Imagine if you restricted your population to the point where families were only allowed to have one child over a 30-year spell.

You'd initially have a great dependency ratio with fewer children to care for, which would spur shorter-term growth.

But that artificially restrained younger generation would eventually have to care for its aging parents.

That policy is actually a reality. In China, authorities estimate that this prevented 250 million births between 1980 and 2000.

And you can see how that lower dependency ratio has contributed to China's explosive growth. With the ratio currently less than 40% China is in a perfect position. Unfortunately, the country will need to pay for it in the future.



Now, this doesn't mean that Chinese stocks will dip over the next few months... but it might happen sooner than you'd think.

According to Wang Feng, a professor of Social Development at Fudan University: *"The consistently low birth rate since the 1990s will cause a noticeable contraction in newly available labour. The section of the population between 20 and 24 years of age will decrease sharply from 125 million in 2010 to just 68 million in 2020 – a 50% decline in only 10 years."*

Source: http://www.investmentu.com/2010/January/the-dependency-ratio.html

Notes

5.3 Theory of Demographic Transition and Window Of Demographic Opportunity

The demographic experience of the countries which are presently called 'developed' countries depict that countries undergo three phases of demographic transition as associated with economic development:

First Stage: high birth rates and high death rates;

Second Stage: high birth rates and low death rates; and

Third Stage: low birth rates and low death rates.

As per this theory, in the initial stage of demographic transition, which normally coincides with a low level of development, the birth rate and the death rate are very high. The rate of growth of population (birth rate – death rate) is, hence, very low. The death rates are high in this stage of an agrarian economy due to poor diets, primitive sanitation and lack of efficient medical aid. Birth rates are also high in this stage as a result of widespread existence of illiteracy, lack of knowledge related to family planning methods, early age of marriage as well as social attitude.

In second stage of demographic transition, because of economic development, fundamental health condition enhances and hence there is low death rate together with the high birth rate. The difference between the birth rate as well as the death rate hence rises and the rate of growth of population is high in this stage of demographic transition. This is also called the phase of population explosion. This speeds up the growth of population.

Ultimately, in the third stage, economic development alters the nature of the economy from an agrarian to a partly industrialized one. Transfer from rural economy to urban economy alters the mind-set of people towards family size and hence this stage is typified by low death rate, low birth rate and low growth rate of population.



Notes Most of the currently developed countries like the USA and Japan are in the third stage of demographic transition. Some states in India, like Kerala and Tamil Nadu, can be said to have reached the third stage of demographic transition.

5.3.1 Window of Demographic Opportunity

An interesting and quick shift in dependency burden happens during demographic transition from high to low mortality as well as fertility. In the initial stage of the transition, populations are very young and the size of the below 15 population (young dependents) is very large in comparison to the working population (15-59). In the second stage, the share of the old dependents in the population slowly increases. What is of importance is the transition from the second stage to the third stage. The big generation of infants in the second stage is quite large in comparison to the first generation of infants in the third stage. When the former grows up it leads to a population structure wherein the share of the working age population is comparatively high as compared to both the young as well as old dependents. Most UDCs which have experienced quick fertility declines in current years are currently undergoing this stage of demographic transition in which the labour force develops more quickly than total population.

Countries undergoing this phase of demographic transition, hence, have a "demographic dividend" or a "window" of "demographic opportunity". It can develop an atmosphere beneficial to economic growth chiefly because of following purposes, among others.

First and foremost is the enhanced saving anticipated during the age structure transition. The rise in saving rate occurs mainly because of the low dependency rate and raised life expectancy.

Notes

Secondly, with the decrease in fertility women are more possibly to arrive into the labour market during this stage. This will lead to enhanced economic activity and would result in an increase in economic growth.

Thirdly, it is also indicated that people invest more on their own health when children are lesser in number, resulting in better productivity and economic advantages to the household.

Ultimately, the government also will be in a status to spend as well as invest in more productive activities with the decrease in the number of children as public spending on education as well as health can be deterred to more productive activities.

But, the demographic dividend cannot assure economic growth automatically. To capitalize on the demographic dividend, countries must execute favourable policies and invest in chief regions such as gender equality, education, health, and employment generation. This should be added with good government institutions and functioning markets. In case governments fail to execute such programmes, countries may struggle with social unrest of unemployed youths and end up in a state when demographic dividend will convert into a demographic disaster.

The demographic dividend does not last forever as the window of opportunity opens only once and ends within a generation. Over time, the age distribution alters again, as the large working population shifts into old dependent age groups and is pursued by smaller working populations born during fertility decrease. When this happens, the dependency ratio increases again. This time, the elderly out number children, whereas the middle generation has to take care of both. This appears to be the experience of both Europe and Japan.

As brought out by a current WHO initiative known as SAGE (Study on Global Ageing as well as Adult Health) the nations that are actually challenged by ageing may be those where the cognitive performance among seniors is poor, as is the instance with various developed countries with an ageing population. In other words, the better cognitive performance of few countries inferred that even though their citizens were older, they could be better workers than their peers and hence more important to their national economies.



Caution The serious effort needs to be put to make the best use of the demographic opportunity available to us presently.

Self Assessment

Fill in the blanks:

10. In the first stage of demographic transition, the birth rate as well as the death rate is very .....
11. The second stage of demographic transition is also known as the phase of .....
12. The third stage is characterized by low birth rate, low death rate and ..... rate of population.



Case Study **Are We Winning the Demographic Battle?**

By many standards, India is an over populated country. High population growth combined with limited resources and infrastructure that cannot keep up are a potential recipe for future disaster. Of course, if we manage population growth well, we can instead use it to our advantage.

Contd...

Notes

The World Bank publishes population statistics and projections, and one of the key indicators studied is called the dependency ratio. The dependency ratio is equal to the number of people who are dependent (aged under 15 and aged over 65), divided by the number of people who are productive (aged between 15 and 65), expressed as a percentage.

For example, a dependency ratio of 50% means that for every two people that are capable of earning, their income must support one person who is dependent. A dependency ratio of 100% means that the income of one earner must support one dependent, and so forth.

Naturally, a higher dependency ratio is bad. It means that there are fewer people working relative to those that are dependent. So where do we fit in to this? India's dependency ratio is just under 55%. By comparison, China's dependency ratio is 40%, USA's is 50%, Japan's is 56%, and UK's is 51%.

China has a fairly low ratio, while the rest are all around the same. According to population growth projections by the World Bank, dependency ratios are set to change dramatically over the coming decades. Most developed economies have low birth rates and ageing populations, and will witness a rise in the dependency ratio. China, due to its one child policy, is also set to experience a rise in the dependency ratio.

India is an exception to this. Of the major economies, we are the only one that will see a fall in the dependency ratio. By 2050, China, USA, and UK will have dependency ratios above 60%, while Japan's will be near 90%. India's will fall below 50% by this time. Obviously these are very long term forecasts that could change, but generally population growth forecasts are quite accurate. Our population will surpass China's population by 2025.

The numbers tell us that we are winning the demographics battle. Unlike most other economies, we will not face the issue of an ageing population. However, this doesn't mean anything unless we can adequately deal with population growth. This means investing in good infrastructure to improve the quality of life for current and future generations.

Questions:

1. Explain Dependency ratio.
2. How World bank does the population growth projections?

Source: http://www.equitymaster.com/dailyreckoning/detail.asp?date=10/26/2012&story=6&title=Are-we winning-the-Demographic-Battle

5.3 Summary

- A demographic profile of India can be prepared with the help of census data.
- A census is conducted every ten years in our country.
- The total population of the nation is growing at the rate of 1.41 %.
- The size of the population of a given area changes over time through (i) migration and (ii) natural factors like births and deaths.
- The density of population helps to determine the magnitude of the burden that land is being called upon to carry and to determine the future potentials of the growth.
- The theory of demographic transition as discussed in Unit1 postulates a three stage sequence of birth rate and death rate as related to economic development.
- An interesting and rapid shift in dependency burden occurs during demographic transition from high to low mortality and fertility.
- The demographic dividend does not last forever because the window of opportunity opens only once and closes within a generation.

Notes

- Over time, the age distribution changes again, as the large working population moves into old dependent age groups and is followed by smaller working populations born during fertility decline

5.4 Keywords

- *Demographic Dividend:* Demographic dividend is defined as a rise in the rate of economic growth due to a rising share of working age people in a population.
- *Demographic Transition:* The demographic transition is the change in the human condition from high mortality and high fertility to low mortality and low fertility.
- *Demographic Window:* Demographic Window is defined as that period of time in a nation's demographic evolution when the proportion of children and the youth (those aged less than 15 years) falls below 30% and the proportion of people aged 65 years or more is still below 15%.
- *Demographics:* The number and characteristics of people who live in a particular area or form a particular group, especially in relation to their age, how much money they have and what they spend it on.
- *Density of Population:* Density of population is defined as population per square kilometre (sq. km.) of land area.
- *Dependency ratio:* A measure showing the number of dependents (aged 0-14 and over the age of 65) to the total population (aged 15-64). Also referred to as the "total dependency ratio".
- *Literacy Rate:* The literacy rate is the measure of how many individuals in a country can read and write a given language. It is usually displayed as a percentage.
- *Sex Ratio*: Sex ratio is a powerful indicator of the social health of any society. It gives the ratio of women to men in the population and reflects the relative chances of survival of women vis-à-vis men.

5.6 Review Questions

1. Mention in brief the major demographic features of India.
2. How does the growth rate of population changes over a period of time?
3. Explain the demographic transition theory in detail.
4. What do you mean by Demography?
5. Define Demographic dividend.
6. What is demographic transition?
7. Describe the window of demographic opportunity.
8. Explain the dependency ratio with an example.
9. What are the causes of decline in sex ratio?
10. Describe the density of population and how it is calculated?

Answers self assessment

1. second
2. Poverty
3. birth rate
4. Literacy level

Notes

5.	Sex ratio	6.	Emigration
7.	dependency ratio (DR)	8.	savings
9.	higher	10.	high
11.	population explosion	12.	low growth

5.6 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). "*Planning Local Economic Development: Theory and Practice.*" SAGE.

Datt Ruddar & Sundharam KPM (2008). "*Indian Economy.*" S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). "*Economics of Development and Planning*, Volume 2." Atlantic Publishers & Dist.

Mahajan V.S. (1986). "*Economic Development of India.*" Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). "*Development and Planning Economy: Environmental and resource issues.*" Taylor & Francis.



Online links

http://www.trikal.org/ictbm11/pdf/Marketing/D1151-done.pdf

http://www.uwmc.uwc.edu/geography/demotrans/demtran.htm

http://www.preservearticles.com/2011112818025/notes-on-the-theory-of-demographic-transition.html

http://www.springer.com/social+sciences/population+studies/book/978-1-4020-4373-4

Unit 6: Urbanization and Economic Development

Notes

CONTENTS

Objectives

Introduction

6.1 Urbanization and Its Effect

6.1.1 Urbanization Effects

6.1.2 The Effect of Urbanization on the Economy and Environment

6.2 Social and economic impact of the urbanization

6.3 Relationship between Economic Development and Urbanization

6.4 Trends and Patterns of Urbanization in India

6.4.1 Demographic Approach

6.4.2 Geographic Approach

6.5 Urban Economic Growth

6.5.1 Size and Composition of Urban GDP

6.6 Measurement of poverty and inequality for urban India

6.7 Summary

6.8 Keywords

6.9 Review Questions

6.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe Urbanization and its effect
- Explain Social and economic impact of the urbanization
- Explain the relationship between Economic Development and Urbanization
- Analyse the trends and patterns of urbanization in India
- Discuss urban economic growth
- Explain the concept of measurement of poverty and inequality for urban India

Introduction

The recent global trend knows a massive spread of urban regions, this growth being really produced by the numerical population growth and migration. Urban development decides changes related to the organization of places, economic as well as social changes but such effects exceed the territorial barriers and produce a wide impact. Urbanization is observed as an effect of the recent globalization phenomenon, with social features as well as the economic ones, signifying the migration process of the population organizing in urban regions, areas regarded to be actual centres of progress that provide multiple options to residents. Cities are centres of changes, positioned in a relationship of interdependence with demographic development and economic growth.

Notes

Considerable expansion of urban areas is because of population migration to such regions, the identification of new feature alter that can make sure the raising of welfare levels of individuals and enhance their situations of life.

6.1 Urbanization and Its Effect

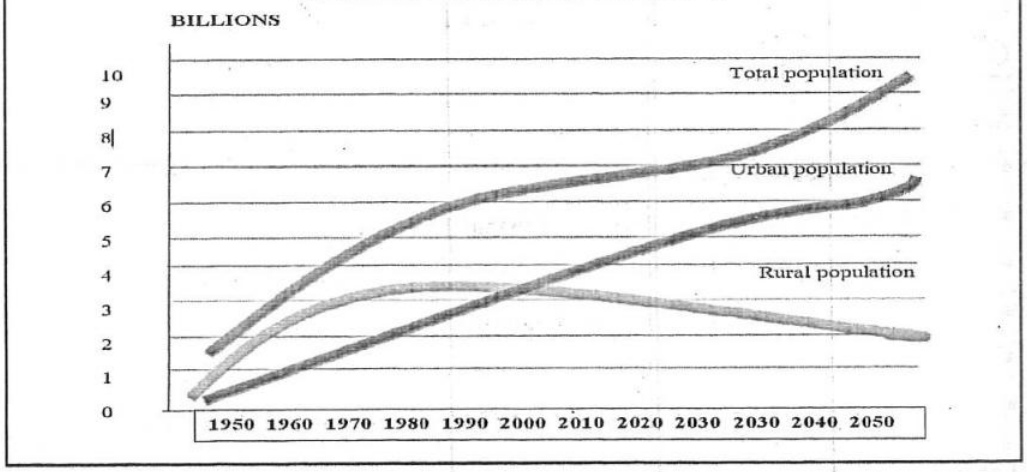
Urbanization depicts a process in which a raising proportion of a society resides in cities as well as the suburbs of cities. Historically, it has been intimately linked with industrialization. Industrialization is a process that widely uses inanimate sources of energy to improve human productivity. After industrialization, surpluses raised in both agriculture and industry. Larger and larger proportions of a population could reside in cities. Economic forces were such that cities turn into the ideal places to find factories and their workers.

6.1.1 Urbanization Effects

At the moment, we are confronting for the first time in the history of mankind an alteration in the numerical proportion of population, the share of global urban population overcomes the rural population as a consequence of current statistics understood by specialists:

- 60% of the global population will reside in urban regions until 2030, regarding that the urban population in 1930 was 30% of the total global population
- daily roughly 180,000 people move in urban areas
- 3.3 billion people reside today in urban space
- 60 million people from undeveloped countries shift annually into urban spaces (urbanization has a magnitude greater pronounced than in developed countries).

Figure 6.1: Global Population Evolution

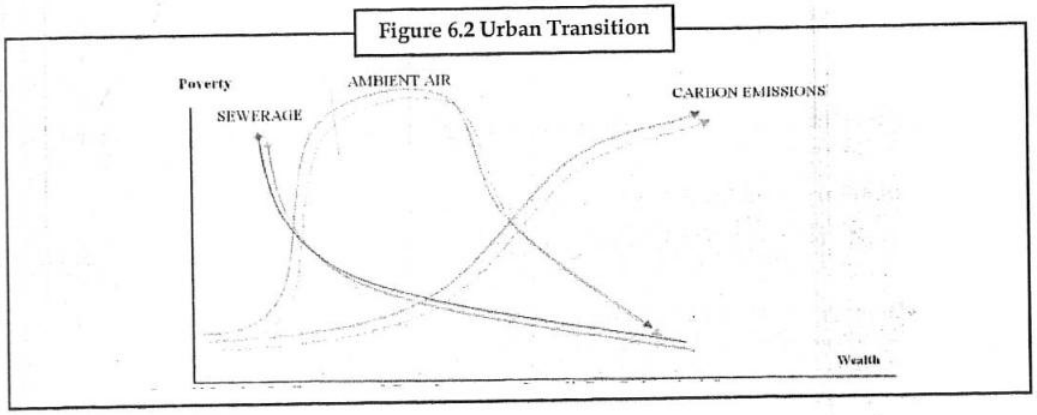


Source: Urban agriculture and the extending process of urbanization, PhD Student Mădălina DOCIU, PhD Student Anca DUNARINTU

To adjust this strong global urbanization is needed to adopt the measures and situations to offer strategic planning and sustainable long-term space measures regarding the principles of sustainable development and the influence of environmental situation on the quality of life. States have varied levels of development, hence confronting the urbanization influence differently, less developed states being the most influenced by the impact of urbanization-regarding water resources, or wealth as offered in the subsequent figure 6.2:

Notes

Figure 6.2 Urban Transition



Source: McGranahan, G., "The citizen at risk. From urban sanitation to sustainable cities. Earthscan, London.

Recently, the process of urbanization is backed equally both as a social process, as well as an economic and territorial one. Urbanization alters the nature of the reason of both economic and social inferences, and the function of the internal relationships, families of redefining the notions of individual and social responsibility.

Did u know? Emphasis on the process of urbanization intensifies pressure on resources, environment and its ecosystems.

6.1.2 The Effect of Urbanization on the Economy and Environment

In current years, as the population in cities sustained development, the scales of main cities in every country around the world continue to expand; as a consequence, the phenomenon of urbanization is slowly becoming clear and is related to by many experts in several regions. There has been substantial effects of urbanization on the economy and environment, which involves both good and bad effects, like consumption growth and extreme demand for resources.

On one hand, as one of the features of urbanization, population growth in metropolises endorses the growth of consumption, simultaneously also brings the issue of unemployment. Due to the influx of rural population and people's daily requirements, like food, clothes and transport, the percentage of consumption in economy rises more quickly than before, this would contribute to national economic development. But, the price of labour decreases progressively which is a serious and has caused a large amount of unemployment, the same due to the population expansion in city.

On the contrary, urbanization in every nation across the world would result in the effects of environment as well. On the positive side, high intensity of population in one city would decrease the destruction of the ecosystems in sparsely-populated regions. On the negative side, water scarcity is severe urban environmental issue because of urbanization. As per WHO, dirty water is by far the biggest environmental killer around the world, taking some millions lives every year, relying on the definition of water-related disease, as the majority of urban populations, particularly in developing countries, do not have access to suitable sanitation amenities and nearly half lack a steady supply of potable water in the high-speed urbanization procedure. Hence, urbanization is one of the most controversial problems in the world today, comprising of several subjects, including both good and bad effects. Among them, the emphasis in urbanization is always on economic and environmental influences. It is vital to remember that urbanization is a long term process, and it is likely to solve such problems in the future.

Notes

Self Assessment

Fill in the blanks:

1. The process of urbanization is supported equally both as a social process, as well as an economic and ..... one.
2. Population growth in metropolises promotes the growth of .....
3. The price of labour declines increasingly seriously, which has caused a large number of .....
4. Economic ..... is both a cause and consequence of urbanization.



Caselet **Economic Growth is both a Cause and Consequence of Urbanization.**

Economic growth is both a cause and consequence of urbanization. The reason is simple. Cities are the engines of growth. The high population and population densities of cities reduce "transaction costs." Services are cheaper (as compared to the same in rural areas) because infrastructure is less costly because of scale economies. That is, infrastructure have high fixed costs and investment in infrastructure is lumpy. The high aggregate demand and supply of infrastructure in urban areas makes lower prices possible.

So the logic so far: economic development of India requires economic growth. Cities are engines of growth because there is a bi-directional link between urbanization and growth. Therefore the rural people have to be urbanized for India's development and growth. Every economy has followed that path which begins with agriculture being the main source of income for the majority of the population and ends with agricultural employment being a very small fraction of the total labour force.

The problem with India's rural development has been that the focus has been on the development of rural areas, not rural people. The policy makers have been focusing on the wrong goal, that of village development. It is silly to attempt to develop 600,000 villages because it cannot be done. The future is deserted villages because people vote with their feet when they get the chance to move to a city. Only in very rich economies do people have the resources to live comfortably in villages. India cannot afford to live in villages; it is not that rich.

Source: http://www.deeshaa.org/think-big-about-indias-urbanization/

6.2 Social and economic impact of the urbanization

Migration of population to urban regions has gotten increasing lately, which is why the statistics made few worrisome scenario that expect the weighting of the urban population and the influence of this process at the worldwide level.

Urban regions have a powerful impact upon places as a consequence of several factors like the extent of use of land or the infrastructure of market makers; the chief social effects of this process are:

- *Contact with the labour market:* Set up in urban areas population adjusts to correspond the work market, specializing in the requirements of prevailing brand and hence framing and adaptation, as well as winning amounts to cover daily needs.
- *Families and the urban society:* It has been frequently observed a decline in the notion of the family, via the proliferation of less conventional forms and new kinds of households.

Notes

This tendency is manifested as a result of the diversity of the many options for individuals, in which individuals are arranging into form collective units.

- *Domestic relations:* A rise in the rate of participation of women in the labour market, they turn out even decision makers who have had to balance professional roles with the family roles.
- *Fertility Rates:* Stepping from rural social space in urban space produces changes in the natural growth rate of population, the phenomenon manifested establishing smaller families, with a decreased number of members.
- *State of health and pollution:* Development of new urban regions without complying with the essential measures for the development of sustainable regions determine a negative influence both on the environment, but by the general situation of reciprocity and on the health of individuals, frequently influenced by increased pollution levels in such regions, in specific the pollution of air and water.
- *Access to education and training:* Access of the population of rural space established urban space make sure their access to education, personal and intellectual development, which offer latest characteristics and modes of the emergence of the individual.
- *Poverty, lack of opportunities and problems of psychological adaptation:* This overlapping of problems is recognised to a part of the population displaced by the urban space, which fails to adapt, to allocate to the standards of urban regions, where social, evolution, and economic development are the actual engines of existence, hence producing a chain of negative effects from deviant attitudes to offenses or violent personalities, as decided by the mirage of developed urban regions, which provides multiple possibilities, being actual centres of development, progress and social welfare.

Economic influence of urbanization involves both positive and negative aspects, with direct impact on places, but also on the regions that surpass those limits, as below:

1. The development as well as diversification of the commercial activities, plus the chance of developing new jobs.
2. Bridging the space between business people.
3. Access to latest technologies and to the several regions of activity, which makes sure increasing incomes and the development of individuals.
4. Development of infrastructure and rise of the number of motor vehicles, which produces both an intensification of resource consumption, and a rise in the level of air pollution and their influence on the environment and on the health situation of individuals. This intensification of transport is decided by the density increased in such regions, but also by the low level of development of the public transport service.
5. Access to amenities, to an environment institutional and cultural developed making sure the balance between resources, provision of goods and services.



Caution All million plus metropolitan areas should set up a Unified Metropolitan Transport Authority (UMTA).

Self Assessment

Fill in the blanks:

5. Stepping from rural social space in urban space generates changes in the ..... of population.
6. ..... the gap between business people is the result of economic impact of urbanization.

Notes

6.3 Relationship between Economic Development and Urbanization

Urbanization and economic development have long been considered as inter-connected processes. Urban economists at times decide the economic status of a nation by merely counting the number of big cities it has. Actually , the development history of several current-day developed nations has clearly showed a dramatic increase in urbanization as their economies expanded. Studies have disclosed that urbanization is an inevitable portion of a modern society.

There has been a huge literature on the function of urbanization for promoting economic growth. It has been extensively identified by economists that urban places prevail largely due to some sort of agglomeration economies in production that is not prevalent in rural environments. Thus, beside firm-level internal scale economies, firms could also profit from increasing returns to scale resulting from larger urban concentrations. The expression agglomeration economies can be further subdivided into two groups: localization economies (external to the firm but however internal to the industry) and urbanization economies (external to the firm and external to the industry). The former prevails due to industrial clustering in cities, while the latter results because primarily of the total size of the city.

Few research studies have compared the two groups of agglomeration economies, assessing their relative importance on the economic performances of a country. Observing the society as a whole, by crowding population into big urban regions, urbanization can enhance efficiencies with relation to provision of infrastructures, law enforcement, social goods and services. Conventional debate on the relationship between urbanization as well as economic growth centre on whether urbanization level was too much or "too disorganized".



Notes As a large part of the urbanisation process is accounted for by the growth of existing urban areas, the speed of urbanisation indicates how quickly these areas are growing.



Example: The fashion industry, experiences agglomeration economies because they can share specialized inputs (photographers, models) that would be too expensive to employ full time.

Self Assessment

Fill in the blanks:

7. Urbanization and economic development have long been regarded as ..... processes.
8. The term agglomeration economies can be further subdivided into ..... economies and ..... economies.

6.4 Trends and Patterns of Urbanization in India

Urbanization is assessed by two methods: First, level and growth of urban share of overall population as well as its distribution by size classes of cities and towns. This is known as demographic approach. Second, alterations in number and expansion of urban centres and an expansion of geographical boundaries of prevailing urban regions. This is known as geographical approach.

6.4.1 Demographic Approach

Table 6.1 depicts that the annual exponential growth rate of urban population has risen from 3.23% during 1961-71 to 3.79% during 1971-81, but decreased to 2.75% during 1991-2001. The

Notes

decrease in growth rate was somewhat reversed back during 2001-2011. During the same period, the share of urban population in the total raised from 17.97% in 1961 to 31.16% in 2011. This depicts that a rising trend of India's urbanization over the decades.

Table 1: Trends in India's urbanization: 1961-2011

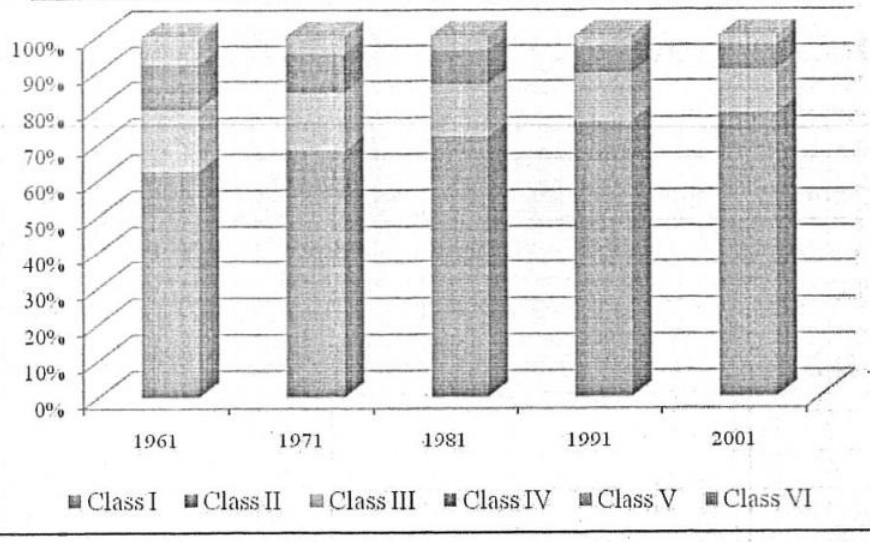
Census Year	Urban Population (in million)	Percentage Urban	Annual Exponential Growth Rate (%)
1961	78.94	17.97	-
1971	209.11	19.91	3.23
1981	159.46	23.34	3.79
1991	217.18	25.72	3.09
2001	286.12	27.86	2.75
2011	377.10	31.16	2.76

Notes As the 1981 Census was not conducted in Assam, and the 1991 Census was not held in Jammu and Kashmir, the population of India includes projected figures for these states in those periods.

Source: Bhagat (2011).

According to the World Urbanization Prospects: 2011 Revision, the percentage of overall urban population in India is 30.9 in 2010, which is lesser than the developed countries such as the United States of America (82.1 per cent) and Japan (90.5%) during the same year. It is also lesser 4 than in other rapidly growing developing countries, like, China (49.2 per cent), Brazil (84.3), and Russian Federation (73.7 per cent) in 2010.

Figure 6.3: Distribution of Urban Population by Size Class of Cities and Towns



Notes: Based on population size Census classifies urban centres in to following six categories. Class I (100,000 or more), Class II (from 50,000 to 99,999), Class III (from 20,000 to 49,999) Class IV (from 10,000 to 19,999), Class V (from 5000 to 9999), and Class VI (below 5000).

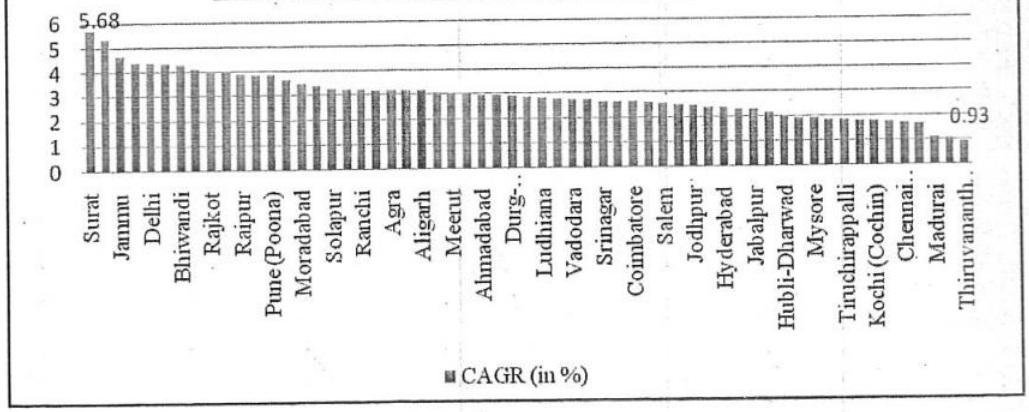
Source: Author's estimation based on Indian Census data of various years.

Notes

Figure 6.3 shows that India's urban population is chiefly focused in and around class I cities. The percentage share of urban population in class I cities has risen from 51.42 in 1961 to 68.7 in 2001. On the contrary, classes II to VI cities have registered a declining rate of urban population growth (percentage). For example, the percentage share of urban population in class IV cities declined from 12.77 in 1961 to 6.84 in 2001.

Due to absence of Census population data in 2005, the study also regards city population data proposed by the United Nations, World Urbanization Prospects (WUP, 2009 revision). It offers population figures for 59 huge agglomerations with 750,000 or additional inhabitants from 1950 to 2025 with five years interval. Figure 6.4 demonstrates that the compound annual growth rate (CAGR) is greatest for Surat (5.68 per cent) and least for Thiruvananthapuram (0.93 per cent) during the time-span 2000 to 2005. The average CAGR is nearly 2.93%. Among the six mega cities (with population more than five million), Delhi (4.38 per cent) ranked at the top of five high population growth cities whereas Chennai (1.72 per cent) ranked lowest among the five population growth cities. The outcomes explain a rising growth rate of city population from 2000 to 2005.

Figure 6.4: CAGR of City Population from 2000 to 2005



6.4.2 Geographic Approach

Table 6.2 depicts that the number of Census towns rose from 1362 in 2001 to 3894 in 2011 – a rise of about 186%. On the contrary, the number of statutory towns recorded a marginal increase of nearly 6.37% during 2001-2011. The number of urban agglomerations has risen from 384 in 2001 to 475 in 2011, a rise of nearly 23.7%. The results point an increasing trend of number of urban agglomerations (UAs) /towns as well as out growths (OGs) from 2001 to 2011.

Table 6.2: Number of UAs/Towns and out Growths

Sr. No.	Type of Towns	2001 Census	2011 Census	Percentage Change
1	Statutory Towns	3799	4041	6.37
2	Census Towns	1362	3894	185.9
3	Urban Agglomerations	384	475	23.7
4	Out Growths	962	981	1.98

Notes: The following definitions are based on Census of India 2011.

All places within a municipality, corporation, cantonment board or notified town area committee, etc. are reckoned as Statutory Towns).

All other places which satisfied the following criteria (known as Census Town):

A minimum population of 5,000

Notes

At least 75 per cent of the male main workers engaged in non-agricultural pursuits; and

A density of population of at least 400 per sq. km.

An urban agglomeration is a continuous urban spread constituting a town and its adjoining outgrowths (OGs), or two or more physically contiguous towns together with or without outgrowths of such towns.

An Out Growth is a viable unit such as a village or a hamlet or an enumeration block made up of such village or hamlet and clearly identifiable in terms of its boundaries and location.

Source: Author's estimation based on data from Census of India, 2011, (GOI, 2011)

Table 6.3 depicts that the total region of All Classes of cities and towns rose from 38509.28 square kilometres in 1961 to 78199.66 square kilometres in 2001. On the contrary, overall area of Class I cities raised from 8174.29 square kilometres in 1961 to 30984.69 square kilometres in 2001. The table also emphasizes on some interesting trends of CAGR of urban area, and depicts that the overall area of cities and towns of All Classes rose from 1.19% during 1961-1971 to 2.05% during 1991-2001. On the other hand, though CAGR of total area of Class I cities enhanced from 3.64% during 1961-71 to 3.92 % during 1971-81, it decreased to 2.58 % during 1991-2001. The results depict a rising trend of India's urban expansion over the decades.

Table 6.3: Expansion of Geographic Boundary of Urban Area

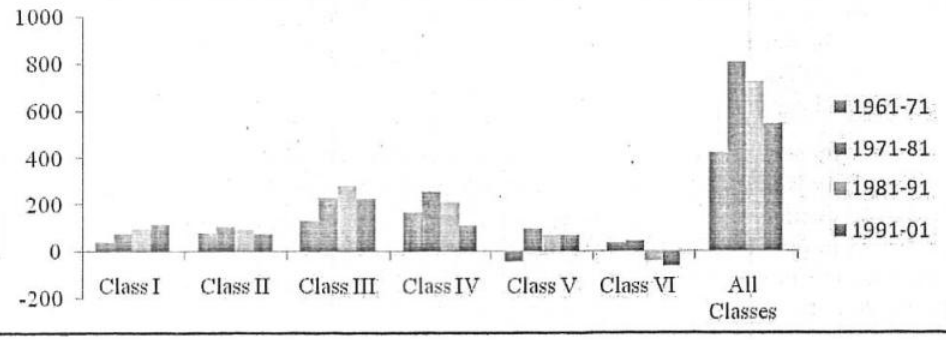
Census Years	Area (in square kilometers)		CAGR (in %)		No. of towns/UAs
	All Classes (394 UAs and 3994 Towns)	Class I (240 UAs and 154 Towns)		All Classes (394 UAs and 3994 Towns)	Class I (240 UAs and 154 Towns)
1961	38509.28	8174.29	-	-	2657
1971	43336.77	11689.53	1.19	3.64	3081
1981	52380.58	17176.50	1.91	3.92	3891
1991	63836.01	24021.97	2.00	3.41	4615
2001	78199.66	30984.69	2.05	2.58	5161
2011	-	-	-	-	7935

Source: Author's estimation based on Indian Census data of various years

Figure 6.5 illustrates that, as per 2001 census, the net addition was 546 new towns that is, a rise of 11.83% during 1991-2001. The highest increase is obvious in class III towns, where the number of towns raised from 517 to 1387 during 1961-2001. The number of cities (or class I towns) has increased from 105 in 1961 to 441 in 2001. The number of towns in class I to class V has been progressively increasing since 1961. The total number of metropolitan cities (population 1 million and above) in India has risen from 23 in 1991 to 35 in 2001 and on to 53 by 2011.

Additionally, the number of towns has risen from 2657 in 1961 to 7935 in 2011. The outcomes point out a rising trend in the addition of new cities/ towns in India.

Figure 6.5: Growth in Number of Cities and Towns in India: 1961–2001



Notes

In general , the descriptions above clearly depict an increasing growth of India's urbanization by the demographic and geographic approach. Hence, issues associated with India's urbanization process are important at present and in future. These problems involve economic growth and equity.



Task Make a report by analysing the trend of urbanization and its future in Indian context.

Self Assessment

Fill in the blanks:

9. Urbanization is measured by two ways, namely, demographic approach and ..... approach.
10. The measure of level and growth of urban share of total population and its distribution by size classes of cities and towns is called ..... approach.
11. WUP stands for .....

6.5 Urban Economic Growth

Urban economic growth is assessed by the growth rate of urban GDP. Net domestic product (NDP) projected at factor cost and its rural and urban break-up at national level are accessible only for the years 1970-71, 1980-81,1993-94, 1999-2000 and 2004-05. Hence, urban economic growth is assessed and described at the national level.

6.5.1 Size and Composition of Urban GDP

Table 6.4 depicts the total urban NDP by broad sectors (that is, agriculture, industry and services) at present prices and constant (1999-2000) prices for these five varied eras. At present prices, the total urban NDP at factor cost is observed to have grown roughly by 9840 per cent during the era, from ₹ 138.5 billion in 1970-71 to ₹ 13766.5 billion in 2004-05, while at steady continuous (1999-2000) prices the raise is by nearly 661 per cent.

The rising volume of urban NDP has as a result increased its contribution to national NDP from 37.65 per cent in 1970-71 to 52.02% in 2004-05. The per capita urban NDP at steady (1999-00) prices for the year 2004-05 is ` 37245 as opposed to ₹ 14142 for 1970-71, that is, an increase of 163 per cent in per capita urban NDP, explaining for about 3 per cent growth rate during the same period. Most significantly, the service sector turned into the dominant sector of the economy by raising its share steeply from 55.7 per cent in 1970–71 to 71.9 per cent in 2004-05 at steady (1999-00) prices. On the other hand, the share of agriculture and industry declined from 4.9 per cent to 2.4 per cent and 39.4 per cent to 25.6 per cent, respectively, during the same era. These outcomes depict that there is a rising trend of share of urban NDP in national NDP in the varied periods of time and contribution from service sector in urban NDP is much greater than other two sectors (industry and agriculture).

The national level NDP at actual prices, the annual average share of agriculture (or industry or service) sector is nearly 31.01 (or 26.27 or 42.02) percent from 1970-71 to 2004-05. On the contrary, the annual average share of agriculture (or industry or service) in urban NDP at actual prices, is nearly 4.16 (or 32.4 or 64) percent during the same duration of time. This points out that, in comparison to national level NDP, the industrial as well as service sector's contribution are much greater than the agriculture sector in urban NDP.

Table 6.4: Size of Total NDP by Sectors and Per Capita NDP

Year	Urban as % of total NDP	Values at Current prices					Values at Constant (1999-00) prices				
		(₹ in billion)			(in Rs.)		(₹ in billion)				(in ₹)
		Agriculture	Indus-try	Service	Total NDP	Per Capita NDP	Agriculture	Industry	Service	Total NDP	Per capita NDP
1970 -71	37.65	6.5 (4.7)	51.74 (37.4)	80.26 (57.9)	138.5 (100)	1294	74.34 (4.9)	594.2 (39.4)	839.8 (55.7)	1508.3 (100)	14142
1980 -81	41.09	22.5 (5.0)	170.9 (37.7)	259.9 (57.3)	453.4 (100)	2888	114.8 (5.4)	801 (37.4)	1225.7 (57.2)	2141.6 (100)	13951
1993 -94	45.73	139.4 (4.4)	1046.9 (32.8)	2005.7 (62.8)	3192 (100)	13525	222.4 (4.6)	1583.9 (32.5)	3069.7 (63.0))	4875.9 (100)	20997
1999 -00	51.7	291.4 (3.5)	2097.9 (25.3)	5911.1 (71.2)	8300.4 (100)	30183	291.4 (3.5)	2097.9 (25.3)	5911 (71.2)	8300.4 (100)	30183
2004 -05	52.02	308.7 (2.2)	3649.7 (26.5)	9808.2 (71.2)	13766.5 (100)	44223	279.7 (2.4)	2942.1 (25.6)	8258.3 (71.9)	11480 (100)	37245

Note: Figures in the parenthesis are shares in percent.

Source: Author's calculation by using data from National Accounts Statistics of various years.

Notes

Notes

6.6 Measurement of poverty and inequality for urban India

The chief aim of this analysis is to grasp whether growing trend of urbanization and urban economic growth is escorted by a greater level poverty and inequality or not.

Kundu and Sarangi (2005) assess the level of poverty across varied size class of cities/towns by regarding the price variation across varied size class of cities/towns, utilising Deaton's methodology [Deaton 2003]. Table 6.5 depicts the varied levels of poverty across varied groups of towns/ cities. In 1999-2000, the poverty level for million plus cities and medium group cities (population between 50,000 and one million) were 14 per cent and 20 per cent, respectively. Small towns (population 50,000 or less) depict a little greater level of poverty (that is, 24 per cent) in 1999-2000. Metropolitan cities had the least poverty level (nearly 23 percent), which is lesser than the poverty level (32 per cent) of medium cities/towns in 1993-94. The greatest level of poverty (i.e., 36 per cent) is obvious in 'small towns' in 1993-94. On the whole, all-India urban level poverty depicts a decreasing trend from 31.4 per cent in 1993-94 to 19.9 per cent 1999–2000.

Table 6.5: Percentage of Poor of Population in Different Size Class of Towns

1993–1994	Poor
Large towns/cities	22.6
Medium cities/towns	32.2
Small towns	36.2
Urban areas	31.4
1999–2000	
Large towns/cities	14.2
Medium cities/towns	20.4
Small towns	24.2
Urban areas	19.9

Note: 'Large towns/cities' refer to those having '10 lakh or above' population; 'medium cities/towns' are those having '50,000 to less than 10 Lakh' population, and 'small towns' are those having 'less than 50,000' population.

Source: Kundu and Sarangi (2005).

Table 6.6: Household consumption inequality trends in urban India

Year	Gini Coefficient	Share in consumption expenditure (%)	
		Bottom 30% population	Top 30% population
1972–73	0.341	13.9	54.3
1977–78	0.345	13.5	54.9
1983	0.330	13.9	53.7
1987–88	0.352	13.4	55.3
1993–94	0.340	13.6	54.7
1999–00	0.343	13.4	54.7

Table 6.6 emphasises a marginal rise in consumption inequality in urban India from 34.1% in 1972-73 to 34.3% in 1999-2000. The comparative share of consumption expenditure of the bottom as well as top 30% urban population groups' points out that the share has remained almost same during the period of 1973-2000. The estimates also depict that marginally the poor were becoming poorer and rich becoming richer during the same period. To attain insights into the current trends of poverty as well as inequality, unit level data of NSS 2004-05 and NSS 2009-10 on

Notes

consumer expenditure has been utilised to assess the poverty and inequality level differentiated across the class of cities as well as by the social groups.

Table 6.7 depicts that all India urban inequality as assessed by Gini index has marginally risen from 0.38 in 2004-05 to 0.39 in 2009-10. During the same duration of time, inequality level for mega city districts marginally decreased from 0.38 to 0.37 while inequality level with relation to 52 big cities in 'other group' raised from 0.40 to 0.43. The 'Marginalized' group has the least level of inequality in comparison with the other two groups (that is, 'Others' and the 'total group') across all groups of cities. On the contrary, all India urban poverty, as assessed by head count ratio, has decreased from 26 per cent in 2004-05 to 21 per cent in 2009-10. Most obviously , the number of mega city districts depicts the least level of urban poverty which declined from 7 per cent to 5 per cent during this period. Particularly, poverty among 'other groups' in the mega city districts has decreased sharply from 6 per cent to 3 per cent during this period. But, poverty rate of 'marginalized group' is greater than 'other groups' with relation to size of cities.

Table 6.7 also depicts that the mean per capita monthly consumption expenditure as assessed by uniform recall price (URP) is lesser among the 'marginalized' group than 'others' group. Generally , the estimates point out that in the process of rising urban economic growth and the level of urban poverty have decreased but urban inequality has broadened in India.

Table 6.7: Poverty and Inequality for urban India

			2004–05				2009–10		
		All India Urban	Large cities (52 cities	Mega cities (6 cities)	Total all India urban (except 52 cities)	All India Urban	Large cities (52 cities	Mega cities (6 cities)	Total all India urban (except 52 cities)
Gini Index	Marginalized Group	0.33	0.35	0.32	0.32	0.35	0.36	0.32	0.33
	Others	0.38	0.40	0.39	0.36	0.40	0.43	0.38	0.36
	Total	0.38	0.40	0.38	0.35	0.39	0.41	0.37	0.36
Headcount Index (in %)	Marginalized Group	34	25	8	39	28	21	8	32
	Others	16	11	6	19	12	7	3	16
	Total	26	18	7	30	21	15	5	25
Average per capita monthly income (in	Marginalized Group	837	962.9	1155.7	771.3	1438.9	1644.69	1911.3	1308.2
	Others	1306.1	1547.9	1736.8	1153.2	2245.7	2705.988	2822.8	1887.6
	Total								
URP) (in ₹)		1052.4	1247.3	1498.6	940.3	1785.8	2132.127	2421.4	1545.7
Sample size (Persons)	Marginalized Group	121411	26871	5167	94540	107689	23510	5497	84146
	Others	85118	23186	8172	61932	73723	19756	7285	54000
	Total	206529	50057	13339	156472	181412	43266	12782	138146

Notes: 1. Marginalized Group includes Scheduled Tribes, Scheduled Castes, and Other Backward Classes.

2. Mega cities are cities with five million-plus population as per 2001 census.

3. Poverty Lines as per the Tendulkar Methodology (GOI, 2009) are considered to calculate Poverty Head Count Ratio for 2004-05 & 2009-10.

Source: Tripathi (2013)

Notes

Self Assessment

Fill in the blanks:

12. Urban economic growth is measured by the growth rate of .....
13. NDP means .....
15. URP means .....



Case Study **The Urbanization Leap**

Economic growth is an imperative if the widely discussed goal of development has to be achieved by India. There are a number of well-known causative factors that lead to economic growth. Among them are an educated and healthy population, reliable and adequate infrastructure, a free and fair market-driven economy, and the availability of public goods such as law and order, political freedom, efficient governance, etc. These causative factors have complex interdependencies and have to be present-simultaneous in time and co-located in space—for economic growth, and consequently, development. Even after a fairly superficial analysis it becomes apparent that these factors of economic growth can be most efficiently provided in - and are usually associated with - cities.

Let's take a few of these factors and see how they relate to cities. Educated people find the opportunities to use their skills in cities because they need the supporting infrastructure and other skilled people to fully utilize their specialized skills. Cities aggregate a large number of people with different skills which make all of them mutually dependent for being productive. Furthermore, the education of the next generation itself is most efficiently provided in cities. Thus cities are the centres not just for the use of education but the provision of education also. Try educating to a high level the children of small villages within the villages and it would soon become clear that it is prohibitively expensive. It has never happened because it cannot be done. Every centre of excellent learning - schools, colleges, universities - is associated with urban areas, either from the beginning or from the urbanization of the place where a great centre of learning is created.

Why is that so? Because of scale economies, as economists say. Given a large enough population at a specific location, the demand for education will be sufficient for its efficient supply. And to supply the large amount of educational services, you need a large number of people. These people in turn need non-educational services and they are also provided by other people in that location. To provide these services you need infrastructure—power, telecommunications, houses, parks, roads, water, sanitation, etc. To provide all the infrastructural services, you need yet more specialized people. Following this line of reasoning you soon reach the conclusion that it needs a city. It needs a city because a city is at the heart of a developed modern complex highly skilled highly specialized economy. See any developed and rich economy, and you will see that it is primarily a collection of cities.

You can of course have an economy based on a large collection of villages. For most of recorded history, economies have been just that, village-based, agrarian, and poor. They were not modern, efficient, or rich. Of course, you don't have to be modern, efficient, and rich. You can choose to be traditional, inefficient, and poor. A Gandhian economy, in other words. An economy which is centred on "self-sufficient" villages is quite feasible. The best part is that one has the choice to live in self-sufficient villages. Very few people choose to do so, however. That suggests that there are very few true Gandhians among the general population. Somehow people appear to prefer the material comforts and opportunities

Contd...

Notes

of city living over the smug satisfaction of living a life of poverty and moral superiority in small villages. At the first opportunity, people from villages migrate to cities, and they prefer to do this even though they often end up living in slums within cities. They reveal their preferences by voting with their feet.

Questions:

1. Explain the causative factors that lead to economic growth.
2. Critically analyse the case study and summarise it.

Source: http://www.deeshaa.org/think-big-about-indias-urbanization/

6.7 Summary

- Urbanization is the process by which large numbers of people become permanently concentrated in relatively small areas, forming cities.
- Internal rural to urban migration means that people move from rural areas to urban areas.
- Natural increase of urbanization can occur if the natural population growth in the cities is higher than in the rural areas.
- Population growth is one of the main reasons to the urbanization. In rural areas natural increase is not high because fertility rate is often lower compared with rural regions.
- Urban development determines changes regarding the organization of places, economic and social changes but these effects exceed the territorial barriers and generate a broad impact.
- All the situations faced globally in terms of urban and spatial extent of the phenomenon of urbanization, need an urgent adoption of measures and methods to minimize the adverse effects and to strengthen their benefits, one of the solutions is the orientation to green cities, subjected to the principles of sustainable development and the establishment of urban spaces adapted to the environmental principles.
- The development of new opportunities in rural areas in order to prevent the realization of scenarios regarding the spatial migration trend of rural to urban areas in the following years should be taken into consideration.

6.8 Keywords

- *Agglomeration Economies:* A reduction in production cost the results when related firms locate near one another. Firms can be related as competitors in the same industry, by using the same inputs, or through providing output to the same demographic group.
- *CAGR:* The year-over-year growth rate of an investment over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.
- *Geographical Approach:* Measuring the changes in number and growth of urban centres and an expansion of geographical boundaries of existing urban areas is called geographical approach.
- *Industrialization:* Industrialization is a process that extensively uses inanimate sources of energy to enhance human productivity.
- *Net domestic product:* The GDP minus depreciation on a country's capital goods. This measure allows users of the country's national accounts to estimate how much the country has to spend just to maintain their current GDP.

Notes

- *Urbanization:* Urbanization refers to a process in which an increasing proportion of a society lives in cities and the suburbs of cities.

6.9 Review Questions

1. What do you understand by the term Urbanization?
2. Define urban economic growth of India.
3. What are the social effects of the urbanization process?
4. Explain the economic impact of urbanization.
5. How is urbanization measured?
6. Describe Urbanization and its effect on economic growth.
7. Explain the relationship between economic development and urbanization.
8. Describe the trends and patterns of urbanization in India.
9. Discuss urban economic growth.
10. Explain the concept of measurement of poverty and inequality for urban India.
11. Describe the effect of urbanization on the economy and environment.

Answers: Self Assessment

1. Territorial
2. Consumption
3. Unemployment
4. Growth
5. natural growth rate
6. Bridging
7. inter-connected
8. localization and urbanization
9. geographical
10. demographic
11. World Urbanization Prospects
12. urban GDP
13. Net domestic product
14. uniform recall price

6.10 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta K.C. & Kaur Harinder (2004). *"New Indian Economy and reforms."* Deep and Deep Publication, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.

Thirlwall A. P. (1999). *"Growth and Development."* Palgrave Macmillan publisher, N. Delhi.

Notes



Online links

http://www.unhabitat.org/documents/SOWC10/R7.pdf

http://www.mckinsey.com/insights/urbanization/urban_awakening_in_india

http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:21531567~menuPK:2246552~pagePK:2865106~piPK:2865128~theSitePK:223547,00.html

http://www.slideshare.net/PlanComIndia/urbanisation-in-india-12th-plan-2012-2017

http://www.transformingindia.in/chapter8.htm

Notes

Unit 7: Population Growth

CONTENTS

Objectives

Introduction

7.1 Population Growth

7.1.1 Nature of Population Problem in India

7.1.2 Causes of Growth of Population

7.1.3 Effects of Growth of Population

7.1.4 Adverse Effect on Quality of Population

7.2 Effects of the Rapid Population Growth in India

7.3 Population Policy in India

7.4 Indicator of Human Development – Human Development Index (HDI)

7.4.1 Evolution of HDI

7.4.2 Features of HDI

7.4.3 Evaluation of the HDI

7.5 Summary

7.6 Keywords

7.7 Review Questions

7.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss Population
- Explain the nature of population problem in India
- Describe the causes of growth of population
- Discuss the effects of growth of population
- Describe the adverse effect on quality of population
- Explain the effects of the rapid population growth in India.
- Discuss population policy in India
- Define Human Development Index (HDI)

Introduction

India has a great population and is the 2nd country to pass the 1 billion population figure. Population of India is a huge issue of Indian economic growth. In the past, India's population has expanded very quickly and has imposed a considerable burden of youth dependency on the Indian economy. But in current years, India's demographic profile has started to evolve in a manner that is potentially more promising to economic growth.

Notes

7.1 Population Growth

Population growth is the amount of people that a country, city, or area attains daily minus the amount of deaths and people who leave. The causes for population growth are deaths, births, and immigration. Population growth and its association with economic growth has been a subject of debate for more than a century.

Population growth reduction can be attained via public awareness and emancipation of women by communicating knowledge and education to woman as well as people inhabiting the rural sectors of India. By catering to all felt needs for contraception and decreasing the infant and maternal mortality, so that desired decrease in fertility level is acquired.

7.1.1 Nature of Population Problem in India

The demographic profile of India depicted above assists us to bring in a definite outlook of the nature of the population problem being confronted by us. Some of the salient characteristics that appear from it are as follows:

India has a huge population base. It is already densely populated; the population is expected to increase further in future.

The growth rate of population in India since the fifties of the previous century has been steadily high and has been produced by (a) continuance of high fertility, and (b) decreasing mortality.

Of late, death rate has attained its plateau; birth rate in more than a dozen states has attained the replacement level. Hence, currently, population growth can be credited to birth-death rate differential in rest of the states. Persistence of high birth rate and death rate for a rather long time has led to a bottom-heavy age pyramid; the dependency proportion in the economy has been very high.

Of late, the age composition has been turning more favourable for growth as the ratio of population in the working age group is on the increase.

The country depicts an increasing masculinity with the proportion of women in the total population slowly decreasing. The rural sector controls the economy. It is indicative of the total low productivity.



Notes About one-third of the total population is illiterate which speaks of the very poor quality of human capital in the country.

7.1.2 Causes of Growth of Population

The main causes responsible for the quick growth of population during the past five decades can be categorized into two groups: (A) those accountable for the persistence of high fertility as pointed out by the high birth rates, and (B) those accountable for decreasing mortality as depicted by the falling death rates.

High Birth Rate: A high birth rate is a function both of social as well as economic factors.

Marriage a Universal Phenomenon in India: Traditionally, the Indian women have married considerably early and only a very small ratio has stayed spinsters beyond the end of the reproductive period, that is, age 50. Three factors are vital in this connection and require our attention:

Notes

- The ratio of women in the child bearing age, 15 – 49, has been hanging around 47 per cent of overall female population.
- 84.53 per cent of the overall female population in the reproductive age group, 15 – 49, was married in 1961; the proportion currently stands at nearly 81 per cent.
- The average age at marriage among females was 15.6 years in 1951 and 1961. It has shot up marginally to 18.3 years in 2008 till date. Though, the age at marriage has been going up and the once extensive child marriage has become comparatively infrequent, the increase in mean age at marriage has been gradual.

In brief:

- the number of women in the reproductive age is big;
- the average age of marriage among females is very low; and
- the number of married women in the reproductive age is big.

All these factors lead to high fertility rate described as the average number of children a woman carries in her lifetime – and the existing high birth rate in the economy.

Rise in Natural Fertility: A number of studies within India have disclosed that the marital fertility rate among young married women under age 30, who did not utilise contraceptives, rose constantly during the era 1951-91 in among younger women has been related to three main factors.

- Enhanced biological fecundity of couples due to better nutrition and health;
- Relaxation of conventional cultural checks on fertility that existed earlier like through sexual abstinence by couples on a number of days in a month due to religious and social reasons;
- Decrease in the duration of breast feeding of infants by mothers because of assimilation of urban values which endorses bottle feeding.

All these modifications are essential consequences of early stages of modernization and each country with a sturdy cultural heritage goes through it. But, this initial phase of modernisation, when natural fertility tends to increase, has to be passed over rapidly wherein extensive use of contemporary methods of contraception do rapidly and effectively replace the conventional checks on fertility.

It was just in the 2001 census that a reversal of trend was observed when the overall fertility rate was estimated to have fallen to 3.2. Currently, it is being estimated at 2.58. It gives an obvious indication that India is going through the final phase of fertility transition, shifting towards moderate to low fertility.

Declining Death Rate: As much as death rate is involved, India has nearly approached the rate that attains in the developed world (World average death rate in 2000: 7.9 per 1000 population).

- The technology of disease control as well as death control has considerably advanced during the past few years that several dreadful and chronic diseases no longer contain a threat. Among these plague, typhoid, smallpox which used to cause damage to full villages together are no longer feared. Antibiotics and other life-saving medicines are at present freely accessible that casualties arising from these diseases have been considerably reduced.
- The growing awareness and amenities for sanitation and cleanliness assist to decrease the incidence of mortality. The provision of better maternity as well as postnatal care as also spread from education has assisted to decrease the infant mortality rate.
- Food shortages and scarcities which used to result in dreaded famines in the past are themselves a wonder of the past. These things do not occur now, partly due to responsible

Notes

administrative arrangements and primarily because of the availability of the vast network of transport and communication amenities.

In short, it is an accepted truth that any enhancement in material well-being meets with a decrease in mortality.

7.1.3 Effects of Growth of Population

Rapid population growth is a handicap, such as extra weight carried by a racehorse. This would be obvious from a short discussion of the several issues that the growth of population in India has caused.

Cassen's Argument: While talking related to the 'Macro-economics of population',

R.H. Cassen has attracted attention to two chief relationships through which population growth influences the economy. These are: (*i*) savings effect, and (*ii*) composition of investment effect.

- The savings effect argues that savings are decreased by population growth due to the increase of the so-called 'burden of dependency': with high fertility, and falling mortality in younger and older age groups, the population attains an increasing proportion of people in the non-working age groups in relation to those of working age. As all must consume while comparatively fewer produce, consumption per head must increase and savings per head must decrease – even if productivity is increasing, savings are less than they would be with a fewer number of dependants per worker.
- The investment argument states that, with a rising population, a share of investible resources has to be dedicated to reproducing for extra people 'unproductive' facilities - especially social overhead capital - which would be needless if the population were not expanding. The composition of investment is changed in an unproductive direction rather than additions to capital going to increase the productivity of the prevailing labour force; investment becomes just 'demographic investment' rather than real investment.

Coale and Hoover's Argument: Coale and Hoover stated three demographic forces unfavourably affecting development:

1. the size of population,
2. growth rate, and
3. age structure.

These three forces have three varied kinds of impact on the economy. *Firstly,* there will be a capital shallowing result as quick population growth results in a decrease in the ratio of capital to labour. *Secondly,* the age-dependency effect develops a deteriorating dependency ratio because of an increase in the young population which will finally erode the savings in the household. *Finally,* the investment diversion effect results in a big amount of money being spent by the government on the social sector instead of for growth-oriented, productive investment. The Coale and Hoover argument advises that fall in fertility promote growth through reduction in the dependency ratios.

7.1.4 Adverse Effect on Quality of Population

The quickly rising population also adversely influences the quality of population. It works in two ways such as:

1. *An individual level*: On an individual level the accessible empirical evidence depicts an inverse relation between numbers of children as well as 'resource intensity per child', remindful of a trade-off between the number of children as well as their average quality wished by parents.

Notes

2. *An aggregative level:* On an aggregative level, these health technologies as have been incited so far are, mainly, what may be known as death-control strategies, which have acted to decrease death rates and make sure better survival. However, between the point of 'survival' or escape from death on the one hand, and the point of optimal health as well as nutrition on the other, there is a distance to be travelled. Unluckily, investments in HRD have not been sufficient to cover fast this critical distance.

The country is, thus, at present trapped in a dangerous twilight phase of development in which huge numbers of the poor who might have otherwise died in the absence of the advantages of modern health technology are at present being 'saved', but these survivors persist to live in a condition of poor nutrition, substandard health and poor educational attainment. It is this ever-expanding pool of substandard survivors which is wearing away the quality of human resources. It is also this big pool of substandard survivors, due to its poverty, illiteracy and under development, which is most resilient to family-planning programmes.

In the social sphere, unhindered growth in population results in a vicious circle. There is a large-scale migration of rural people which causes unplanned urbanisation. The increasing population of unemployed young people is predisposed to adopt anti-social activities. These people are inclined to perpetuate the cycle by producing more children themselves. Paul Ehrlich was possibly right when he remarked in his best-selling book, 'Population Bomb': 'You are poor because you are too many.'

Self Assessment

Fill in the blanks:

1. A high ..... is a function both of social and economic factors.
2. The growth rate of population in India has been caused by persistence of high ....., and declining mortality.
3. The growing awareness and facilities for sanitation and cleanliness, help to reduce the incidence of .....
4. ..... has drawn attention to two main relationships through which population growth affects the economy. These are savings effect, and composition of investment effect.
5. The rising population of unemployed young people is prone to adopt ..... activities.



Caselet **Census 2011: Population Growth Rate Declines to 17%**

India's population growth rate has decelerated to 17.64 per cent in the decade 2001-11, the slowest rate of growth this past century, according to the first results of Census 2011 put out by the registrar-general of census.

India's population in 2011 is estimated to be 1.21 billion, comprising 624 million males and 587 million females. While the gender imbalance in population remains, the preliminary census figures show that India's female population grew by 18.12 per cent over the past decade against 17.19 per cent for males.

India's literacy rate has gone up from 64.83 per cent in 2001 to 74.04 per cent in 2011. Literates constitute 74 per cent of the total population aged seven and above. The sex-ratio, that is number of females per 1,000 males, has improved to 940 from 933 a decade ago.

"This shows that we are bottoming out on the gender issue. Gender equality will now improve," says Laveesh Bhandari of Indicus Analytics said.

Contd...

Notes

However, a disturbing figure reported by the census is that male preference persists among newly born, with the child sex ratio at 914, the lowest since Independence. "This is a matter of grave concern," Registrar of India and Census Commissioner of India C Chandramauli said, while releasing the figures. Ritu Priya Mehrotra professor in the Centre of Social Medicine and Community Health in the Jawaharlal Nehru University said that the news was alarming. She also noted that while the world counts the number of men in a population of 1000 females to determine sex ratio, India looks at the number of women per 1000 males as it assumes the numbers to be less.

Sabu George, who has been campaigning for the rights of the unborn girl child for the last two decades and whose PIL in the Supreme Court was instrumental in changes in the Pre Natal Diagnostic Techniques (PNDT) Act, said that the result was not surprising.

India's population accounts for the world's 17.5 per cent, second only to China that constitutes 19.4 per cent. The country's headcount is almost equal to the combined population of the United States, Indonesia, Brazil, Pakistan, Bangladesh and Japan, put together.

The population of India has increased by more than 181 million during 2001-11. This is the first decade which has actually added less population compared to the previous decade, Chandramauli said.

Source: http://www.business-standard.com/article/economy-policy/census-2011-population-growth-rate-declines-to-17-111040100090_1.html

7.2 Effects of the Rapid Population Growth in India

The results of the quick population growth in India are:

- *Offering employment to growing population:* This is so as in developing economies most of the population is illiterate. The load of school age population has already depicted signs of becoming unbearable. The ratio of children in schools is rising fast and, huge numbers are still not included. The absolute number or illiterate persons rises each year. This is merely an indication of the wastage of human resources for requirement of proper development opportunities.
- *Problem of utilisation of manpower:* Better educated manpower seeks for occupations of higher prestige, which are started by the new development efforts. Due to its capital intensive nature, the capability, of the new economy for employment generation becomes limited . At the same time, it makes many of the old occupations out of day and superfluous. As a consequence, under-employment and unemployment, involving unemployment of educated persons, increases. There is therefore wastage of even developed human capital.
- *Over-strained infrastructure:* Amenities like housing, health care, transportation, and education become inadequate. The worst symptoms of congestion in every feature of living situations are manifested in the urban regions. In countries like India, a condition of "over urbanisation" exists which puts unbearable stress on urban amenities. Overcrowded houses, slums as well as unsanitary localities, traffic congestion and crowded hospitals have become usual characteristics in the developing countries.
- *Pressure on land and other renewable natural resources:* Common properties like forest and water are over-exploited. This leads to deforestation and desertification with permanent harm to the renewable resources.
- *Increased cost of production:* Human ingenuity and technological advancement makes it probable to enhance production of goods and services. However, it must be borne in mind that, the cost of production of the fundamental necessities of life, like food, rises when the population is growing quickly and worse lands are brought into cultivation with pricey irrigation etc.

Notes

- *Inequitable distribution of income:* Both at the international as well as national levels income disparities rise. The rise in gross national product (GNP) is highly decreased in per capita terms due to the quickly growing population. In the face of a quickly growing population, the main concern of a developing country is inclined to be focused more on economic growth as such.



Notes Thoughts of unequal distribution of income are put in background which results in broadening of inequalities within the country.

Self Assessment

Fill in the blanks:

6. Both at the international and national levels income ..... increase.
7. Human ..... and technological advancement makes it possible to increase production of goods and services.

7.3 POPULATION POLICY IN INDIA

An outline of the population problem in India, provided above, underlines the need for a direct attack on the issue that should target at a quick reduction in the birth rate.

Population policy depicts the Government policy to control the population. Population policy may also be described as intentionally constructed or altered institutional arrangements and/or particular programs via which governments effect, directly or indirectly, demographic change. Government of India has recognised the issue of increasing population on economic development of a country. Enhancement in standard of living of the people requires a vital decrease in the growth of population.

Enhancement in health amenities results in decline in death-rate. It infers that decline in birth-rate is essential to control the growth rate of population.

Family planning steps have been adopted by the Government for the efficient control of birth-rate. Government does not make any forced method to execute the family planning programme. Family planning is democratic in nature. It depicts married people are convinced to restrict the size of their family. It convinces couple to restrict the size of the family and also offers incentive for the family planning.

Various steps which are taken by the Government in the family planning programme are provided below:

Family Planning Programme: Government offers different advertisements on television, radio, newspapers and films to train the couple about the advantages of small family and teaches people to produce children by choice and not by chance. This kind of advertisement offers incentive for the people to control their family.

People are now being trained about the problems of big family and various methods to control birth.

1. Birth control amenities are now being offered in various health centre and hospitals.
2. Financial incentives are now being provided to the couple for vasectomy operation.
3. Green card is now being offered to the couple who have run two-child-norm. This card assists people to get amenities in employment and promotion.

Notes

Other Measures: Except these above mentioned programmes other measures are now being adopted to decrease birth-rate.

1. Child marriage is banned. The marriage age for male and female has been raised lo 21 years and 18 years respectively.
2. Educated couples are usually interested for small family. So education is being offered to the females to decrease birth-rate. If females are educated, they will want a small family and late marriage. Because of more incentive for the female education, it is anticipated to control the growth rate of population.
3. The measures which are at present being taken in various five year plans will assist to control birth-rate as, due to economic development standard of living of the people increases.



Caution To maintain a high standard of living, people should be interested to adopt small family norm.



Did u know? The National Family Planning Programme was launched in 1952 with the objective of "reducing birth rate to the extent necessary to stabilise the population at a level consistent with requirements of national economy."

Self Assessment

Fill in the blanks:

8. Improvement in health facilities leads to decline in .....
9. Family planning is ..... in nature.

7.4 Indicator of Human Development – Human Development Index (HDI)

The Human Development Index (HDI) is a summary composite index that assesses a country's average accomplishments in three fundamental aspects of human development: knowledge, health, and income. The degree to which a country has developed may be measured by regarding a range of narrow and broad indicators, involving per capita income, education, life expectancy and the degree of poverty.

7.4.1 Evolution of HDI

The index was created in 1990 by the Pakistani economist Mahbub ul Haq, and has been utilised since 1993 by the United Nations Development Programme (UNDP) in its annual report to offer a way of measuring economic development in three wide regions - per capita income, health and education. The HDI trails modifications in the level of development of countries with passage of time.

Every year, the UNDP generates a development report, which offers an update of changes during the year, together with a report on a special theme, like global warming and development, and migration as well as development.

The launch of the index was an explicit acceptance that development is a substantially wider concept than growth, and should involve a range of social and economic factors.

Notes

7.4.2 Features of HDI

HDI has two chief characteristics, viz., a scale from 0 (no development) to 1 (complete development). An index, which is based on three equally, weighted components:

1. Longevity, evaluated by life expectancy at birth
2. Knowledge, evaluated by adult literacy and number of years children are enrolled at school
3. Standard of living, evaluated by actual GDP per capita at purchasing power parity.

The figures mean:

- An index of 0 – 0.49 depicts *low development* - for instance, Nigeria was 0.42 in 2010.
- An index of 0.5 – 0.69 depicts *medium development* – for instance, Indonesia was 0.6. 3.
- An index of 0.7 to 0.79 depicts *high development* – for instance, Romania was 0.76. 4.
- Above 0.8 depicts very *high development* – Finland was 0.87 in 2010.

The HDI is a very valuable means of comparing the level of development of countries. GDP per capita alone is obviously too narrow an indicator of economic development and fails to point out other features of development, like enrolment in school and longevity. Therefore, the HDI is a wider and more encompassing indicator of development than GDP, although GDP still offers one third of the index.

Life expectancy: Various factors may lead to differences in life expectancy, involving:

1. The stability of food supplies
2. War
3. The incidence of disease and natural disasters

As per World Bank figures, life expectancy at birth in developing countries over the past 40 years has risen by 20 years. But, these increases were not evenly distributed. Certainly , in many countries in sub-Saharan Africa, life expectancy is declining because of the AIDS epidemic.

Adult literacy: The percentage of those aged 15 and above who are capable of reading and writing a simple statement on their day to day life.

More wide definitions of literacy involve those based on the International Adult Literacy Survey. This survey tests the capability to asp text, interpret documents and conduct basic arithmetic.

GDP per capita: GDP per capita is the most common indicator of material standards of living, and therefore is involved in the index of development. GDP per capita is calculated by assessing Gross Domestic Product in a year, and dividing it by the population.

7.4.3 Evaluation of the HDI

In spite of the extensive use of the HDI there are numerous criticisms that can be made, involving:

1. The HDI index is for a sole country, and as such does not differentiate between various rates of development within a country, like between urban and contemporary rural communities.
2. Critics argue that the equal weighting between the three major components is quite arbitrary.
3. Development is mainly about freedom, however the index does not straightaway measures this.

Notes

4. As with the narrow measure of living standards, GDP per capita, there is no sign of the distribution of income.

5. Additionally, the HDI excludes many features of economic and social life that could be considered as contributing to or constraining development, like crime, deprivation, corruption, poverty, and negative externalities.

6. GDP is computed with relation to purchasing power parity, and the value can alter.

Example: Access to the internet might be regarded by many as a freedom which improves the quality of people's lives.

Task Study and analyse the other indicators of human development.

Self Assessment

Fill in the blanks:

10. The ..... tracks changes in the level of development of countries over time.

11. Standard of living is measured by real GDP per capita at .....

12. ..... is the commonest indicator of material standards of living, and hence is included in the index of development.

Case Study

Population Explosion in India

Population explosion is the most serious problem facing our country today. With 16 per cent of the world's population, India is toady the second largest populations' country in the world. As on March 1.1991, when the last census was conducted, the country's population stood at 846.30 million, with 439.23 males and 407.07 females. The country's population is currently estimated at about 950 millions. The population growth has been extremely rapid in the last 50 years. The phenomenal growth is now more appropriately termed as "population explosion".

The phenomenal growth rate in population is largely because of the industrial and technological revolutions that had taken place in the recent times. The new technologies have not only brought down the death rate because of the vastly improved Medicare resulting in increased life expectancies, but had also facilitated increased food production to take care of food needs of the increasing population.

Though population explosion is a major problem being faced by several other countries too, with the world population estimated to reach 7 billion by the beginning of the 21st century, the problem is much more severe in India because of the increasing pressure on the limited resources of the country. With the growth of food grains not keeping pace with the increase in population during some years because of the unfavourable weather conditions, the spectre of hunger hunts millions of households in the country.

Even when the country is fortunate enough to have a bumper crop, these hungry households do not have the economic strength or purchasing power to buy the required food grains.

Contd...

Notes

The phenomenal population growth exerts immense pressure on other basic necessities like education, health, housing, clothing, employment opportunities etc.

With employment opportunities in the rural areas becoming scarce, population explosion is resulting in increasing migration of rural poor to the urban areas in search of jobs. The increasing pressure on the urban areas is giving rise to more number of slums and this is multiplying the problems in the urban areas as health is the first casualty in slums.

To check ill-effects of population growth on the socio-economic front, the Indian government had launched the Family Planning Programme in 1951. This was later rechristened as the Family Welfare Programme. This programme promotes on a voluntary basis, responsible Planned Parenthood, through independent choice of family planning methods best suited to the people.

Though the Family Welfare Programme has resulted in significant declines in death rates and infant mortality besides almost doubling life expectancy, a lot more needs to be done if the population explosion is to be effectively checked. For this, we have to improve the literacy rate, female education and the socio-economic status of the families as population growth is directly linked to these factors. The fact that Kerala could make a lot of progress in checking population growth testifies to the impact of literacy on population explosion.

The government should also intensify its efforts to educate the people on the adverse effects of population explosion. The population explosion can be effectively checked only when the people are inclined towards smaller families. With increasing literacy rate and improved socio-economic status, the people can be educated to adopt a favourable attitude towards smaller families. When this happens, the population explosion can be checked.

Questions:

1. Why population explosion is a serious problem faced by India?
2. What initiatives have been taken by the Indian government to check ill-effects of population growth?

Source: http://www.preservearticles.com/201104105189/population-explosion-in-india-essay.html

7.5 Summary

- Population growth is the amount of people that a country, city, or area attains daily minus the amount of deaths and people who leave.
- The causes for population growth are deaths, births, and immigration.
- Population growth reduction can be attained via public awareness and emancipation of women by communicating knowledge and education to woman as well as people inhabiting the rural sectors of India.
- The quickly rising population also adversely influences the quality of population.
- In the social sphere, unhindered growth in population results in a vicious circle.
- Population policy depicts the Government policy to control the population.
- Population policy may also be described as intentionally constructed or altered institutional arrangements and/or particular programs via which governments effect, directly or indirectly, demographic change.
- Government offers different advertisements on television, radio, newspapers and films to train the couple about the advantages of small family and teaches people to produce children by choice and not by chance.
- The HDI is a very valuable means of comparing the level of development of countries.

Notes

7.6 Keywords

Birth Rate: The proportion of births to the total population in a place in a given time, usually expressed as a quantity per 1000 of population.

Death Rate: The relative frequency of deaths in a specific population is called death rate.

Fertility rate: Fertility rate is defined as the average number of children a women bears in her lifetime.

Fertility: Fertility refers to the birth rate of a population.

HDI: An abbreviation of the Human Development Index, which is a summary composite index that measures a country's average achievements in three basic aspects of human development.

Human Ingenuity: Human ingenuity is the sum total of the clever and resourceful of all people.

Mortality: Mortality is the state or condition of being subject to death.

7.7 Review Questions

1. What are the causes of high growth rate of population in India?
2. Critically examine the effect of increasing population growth in India.
3. What are the adverse effects of population growth on quality of population?
4. Describe the Population Policy of India.
5. Give your suggestions to popularise family planning in the undeveloped regions of India.
6. List the steps which are taken by the Government in the family planning programme.
7. Suggest in brief the measures to bring about stability in population growth in India.
8. Explain HDI as the indicators of human development.
9. What are the chief features of HDI?
10. When was HDI introduced in India?

Answers: Self Assessment

1. birth rate
2. fertility
3. mortality
4. R.H. Cassen
5. anti-social
6. disparities
7. ingenuity
8. death-rate
9. democratic
10. HDI
11. Purchasing Power Parity.
12. GDP per capita

7.8 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Notes

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.populationofindia.info/

http://kotharionindia.blogspot.in/

http://www.halfmantr.com/display-national-issues/1011-population-policy-of-india

http://www.preservearticles.com/2012042631219/what-is-meant-by-human-development-index.html

http://news.bbc.co.uk/2/hi/6911544.stm

Unit 8: Strategies and Theories of Economic Development

Notes

CONTENTS

Objectives

Introduction

8.1 Strategies of Development

8.1.1 Strategies of Development in India after Independence

8.1.2 Approaches to Economic Development

8.2 The Low-Level Equilibrium Trap Theory

8.2.1 Criticisms of the Theory

8.3 Big Push Theory

8.3.1 Criticisms of the Theory

8.4 Balanced Growth and Unbalanced Growth

8.4.1 Balanced Growth

8.4.2 Unbalanced Growth

8.4.3 The theory of Balanced Growth

8.4.4 Theory of Unbalanced Growth

8.5 Choice of Technique and its Basic Issues

8.5.1 Meaning

8.5.2 Determinants

8.5.3 Approach to the Choice of Techniques

8.6 Summary

8.7 Keywords

8.9 Review Questions

8.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the strategies of development
- Explain the approaches to economic development
- Describe the Low-Level Equilibrium Trap theory
- Define the Big push theory
- Explain Balanced Growth and Unbalanced Growth
- Describe choice of technique, different approaches and its basic issues

Introduction

Economic development is basically about improving a nation's factors of productive capacity, that is, land, capital, labour, and technology, etc. By utilising its resources and powers to decrease the risks and costs, which could ban investment, the public sector frequently has been responsible

Notes

for establishing the phase for employment-generating investment by the private sector. The public sector usually seeks to enhance incomes, the number of jobs, as well as the productivity of resources in areas, states, towns, counties, cities, and neighbourhoods. Its tools and strategies have frequently been effective in improving a community's:

- labour force (accessibility, workforce preparation, cost)
- business and community facilities (access, capacity, and service to business incubators, industrial/technology/science parks, schools/community colleges/universities, sports/tourist facilities)
- infrastructure (accessibility, capacity, and service of basic utilities, as well as transportation and telecommunications)
- Institutional capacity (leadership, knowledge, skills) to support economic development and growth.
- environment (physical, psychological, cultural, and entrepreneurial)
- economic structure (composition)

But, there can be trade-offs between economic development's objectives of job creation as well as wealth generation. Increasing productivity, for example, may remove some kinds of jobs in the short-run. Economic development encompasses an extensive and expansive set of activities and tools that help communities in growth as well as prosperity. The best economic development practitioners strive to attain quality jobs, new businesses and enhanced services (along with several other advantages) to communities via innovative approaches and result driven strategies.

Technology development has added a latest dimension to the function of economic development professionals. The quest for enhanced technology can be confusing as well as challenging from many viewpoints. Communities must judge to what degree they should endeavour to recruit and support the technology industry, how to decide the appropriate role of advanced technology on the organization's day to day activities and design ways to assist local businesses tap into technology opportunities. Most communities have been able to include technology into both their practices and programs whereas others have struggled to grasp the abilities of this industry. As the information age and technology sector preserve steady growth, the requirement for more advanced economic development activity is growing as well. Technology development includes increased infrastructure abilities, advanced financing choices, innovative marketing processes and start-up business help.

Economic development is tough to attain. It has been impossible for few countries (for instance, Nigeria, Sudan), but acquired by others (for example, S. Korea, Singapore).

8.1 Strategies of Development

Following are the strategies usually applied in economic development:

1. ***Balanced vs. Unbalanced Growth:*** Recently there are two main schools of thoughts related to the process of growth, that is, balanced growth strategy as well as unbalanced growth strategy:

   (a) ***Balanced Growth Strategy:*** Economists such as Ragnar Nurkse and Rosenstein Rodan strongly suggest balanced growth strategy. As per them, the pattern of investment should be so designed as to make sure a balanced development of the several sectors of the economy. They suggest same time investment in numerous industries so that there is a balanced growth of various industries.

   (b) ***Unbalanced Growth Strategy:*** Economists such as H.W. Singer and A.O. Hirschman, on the contrary, believe that quick economic growth follows 'concentration' of

Notes

investment in specific strategic industries instead of an even distribution of investment among the several industries. In the view of these economists, unbalanced growth is more encouraging in economic development than a balanced one.

2. ***Big-Push Strategy:*** The big-push strategy is related to the name of Rosenstein-Roden and Harvey Leibenstein. It is argued that a big-push is required to get over the initial inertia of a stranger economy. Rosenstein-Roden notes that there is a least level of resources that must be dedicated to a development programme if it is to have any opportunity of success. Converting a country into self-sustaining growth is similar to getting an airplane off the ground. There is crucial ground speed which must be passed prior to the craft can become airborne.

3. ***Balanced, Unbalanced and Big-Push (BUB) Strategy:*** The supporters of this strategy propose that no single strategy will take us to the objective of economic development. Not only has the strategy to be modified from time to time as the condition may require, but it may be essential at times to strike a balance between the optional strategies. In the initial stage, which is typified by unbalances, counter-unbalance strategy is to be adopted. But once a proper balance is acquired by a fair dose of big-push, the strategy of balanced growth may be applied to additional planning.

8.1.1 Strategies of Development in India after Independence

Following Independence, India has embraced mixed economy as economic developmental strategy. Both public and private sector exist together side by side. In order to acquire quick economic growth, planned development economy was launched. **The Economic Development Strategies after Independence are as given below:**

1. Both public and private sectors were assigned to conduct business activities. Public sector was allocated activities such as coal, steel, power, mining, roads etc. Private sector was assigned to set up industries subject to control and regulations in the shape of law.

2. Public sector was offered main push by the Government. Maximum revenues in this sector was invested which raised from ₹ 81.1 crore in First Five-Year Plan (1951-56) to ₹ 34,206 crores in Ninth Five-Year Plan (1992–97)

3. Public sector was offered significance in order to remove poverty, unemployment etc.

4. Public sector led to the industrialisation of the economy. It also assisted Indian economy to acquire a substantial degree of self-sufficiency.



Did u know? The strategy of economic development in India meant (1) direct participation of the government in economic activities such as production and selling and (2) regulation of private sector economic activities through a complex system of controls.

8.1.2 Approaches to Economic Development

The below mentioned approaches are developed in current years to describe the economic development and reply to the question how countries get out of the vicious cycle of poverty to virtuous circle of economic development:

1. *The Take-off Approach:* Take-off is one of the phases of economic growth. Varied economies have been profited from 'take-off' approach in various periods, involving England at the starting of eighteenth century, the United States at the middle of nineteenth century, and Japan in early twentieth century. The take-off is encouraged by leading sectors like a quick growing export market or an industry displaying big economies of scale. Once these foremost sectors start to flourish, a process of self-sustained growth (that is take-off) happens.

Notes



Notes Growth leads to profits, profit are reinvested; capital, productivity and per capita income spur ahead. The virtuous cycle of economic development is under way.

2. ***The Backwardness Hypothesis and Convergence:*** The second approach focuses on the global context of economic development. Poor countries have vital benefits that the pioneers of industrialisation had not. Developing nations can attract the skills, capital, and technologies of advanced countries. Developing countries can purchase contemporary efficient pumps, textile machinery, miracle seeds, chemical fertilisers and medical supplies as they can rely on the technologies of advanced countries. Present day's developing nations can grow more quickly than Western European Countries, Great Britain and United States in past. By attracting more productive technologies of the leaders, the developing countries would anticipate to observe convergence towards the technological frontier.

3. ***Balanced Growth:*** Few writers advise that growth is a balanced process with countries advancing steadily ahead. In their opinion, economic development looks like the tortoise making continual progress, instead of the hare, which runs in bursts and then rats when tired. Simon Kuznets inspected the history of thirteen advanced countries and considered that the balanced growth model is most reliable with the countries he studied. He observed no vital rise or fall in economic growth as development advanced.

Self Assessment

Fill in the blanks:

1. Economists like Ragnar Nurkse and Rosenstein Rodan strongly advocate ..... growth strategy.
2. Unbalanced growth is more ..... in economic development than a balanced one.
3. In the initial stage, which is characterised by unbalances, ... strategy is to be adopted.
4. India has adopted ..... economy as economic developmental strategy.
5. Take-off is one of the stages of .....



Caselet **Strategy for Suitable Industrial Development in India**

The rapid industrialization process has led to serious deterioration of environment both on the peripheral regions and within the city. There is a clear trend towards increase in concentration of industries on the fringes of cities in India.

About 80 percent of the total industrial production is accounted for by industries located only in 12 big cities. The industrial pollution affects not only the lives of 162 million city dwellers but also the forests and trees growing in the vicinity of the city resorts and metropolises.

To contain and control the adverse effects of industrialization of environment, regulation of land use measures must be undertaken. In addition to the existing million plus cities, a few Satellite Cities should be creating around the million plus cities. While catering to the local needs of the satellite cities, this will enable each region to make use of the infrastructural services of the big city, such as transport, recreation and communication system.

Contd...

Notes

Industries must be classified into different categories and an effort must be made to ensure that water-intensive industries like paper industry are located in areas with plenty of water.

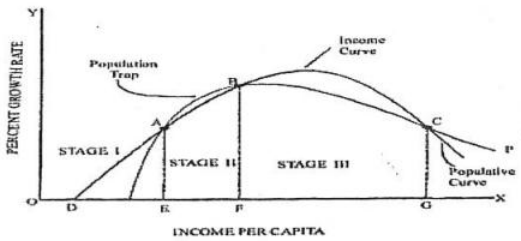
Whereas, in areas of water scarcity only such industries must be allowed which are not water-based, like electronics industries must also have a separate cell to safeguard against environmental pollution .such cells must undertake continuous study of the level of environmental pollution, suggest appropriate measures and force the concerned industrial units to take adequate measures for environmental protection. This means that the industries ought to make necessary changes in their equipment in harmony with eco-balance. The technological change should complement the spirit of sustainable development, i.e. it should enhance the current and future potential of resources to meet human needs and aspirations.

Source: http://www.preservearticles.com/201102244185/strategy-for-suitable-industrial-development.html

8.2 The Low-Level Equilibrium Trap Theory

The Theory of the 'Low-level Equilibrium Trap' (or what has also been known as the Maldusian Trap) has been created by R. R. Nelson in the middle-1950s. Fundamentally, the theory is that as per capita income stays below a crucial level, a population growth rate that surpasses the income growth rate will always turn the economy back to a ' Low-level Equilibrium Trap'. This can be demonstrated diagrammatically with the assistance of Figure 8.1:

Figure 8.1: Low-level Equilibrium Trap



In Figure 8.1, it would be observed that high fertility as well as high mortality rates cancel out each other and population stays stable at very low levels of per capitals income (OD), and this situation does not change till point A is crossed, when, mainly because of declining mortality roles, population grows at a quicker rate than income.

As a result, when point B is crossed, i.e., at income level beyond OF, the rate of growth of income surpasses that of population, mainly because of a decline in fertility rates, and until point C depicting a stable equilibrium is attained. Nelson states four social and technological situations which may bring about the trap they are:

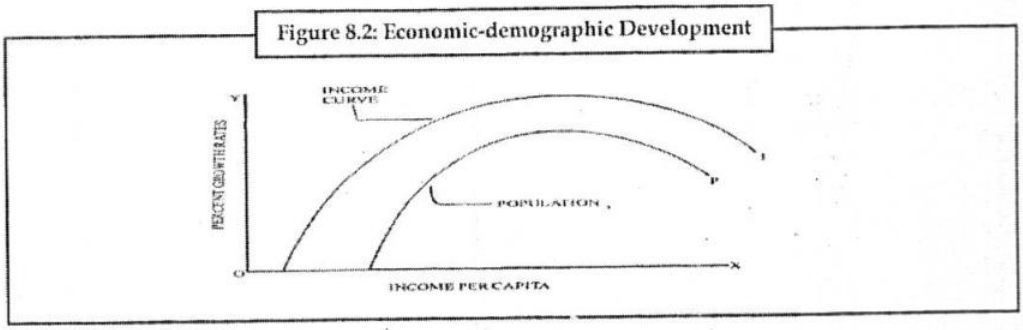
- A low propensity to direct additional per capita income to increasing per capita investment.
- Inefficient methods of production,
- A high correlation between the level of per capita income and the rate of population growth,
- Scarcity of uncultivable arable land.

Nelson also indicates towards two other factors, namely (i) cultural inertia, and (ii) economic inertia. These two are trapped in a vicious circle, and faced on each other.

The strength of the trap relies on the amount of the force of the factors that serve to trap an economy. Flight from the low-level equilibrium trap is probable either by raising the rate of growth of income, or by decreasing the rate of growth of population, or by both, so that the diagram of economic-demographic development appears as in Figure 8.3:

Notes

Figure 8.2: Economic-demographic Development



Nelson advises several methods of escaping the low-level equilibrium trap and most of these are to be used at the same time. Among these, the more vital are as followed:

- There should be a favourable socio-economic environment in the country.
- The social structure should be altered by laying a greater focus on carefulness and entrepreneurship. Higher produce more and to restrict the size of the family.
- Steps should be adopted to alter that distribution of income, simultaneously facilitating accumulation of wealth by investors.
- There should be an all-perverting government investment programme.
- Income as well as capital should be used to utilise prevailing resources more wholly so that income is raised from the given inputs.

Coming out of the trap needed increasing the rate of growth of income to levels greater than the rate of increase in population.

Caution A jump must be made to the point which is above a certain minimum per capita income so that a sustained growth may take place, without further government action until a high level of per capita income is reached.

8.2.1 Criticisms of the Theory

The theory has been criticised on the grounds mentioned below:

1. The theory assumes that a rise in per capita income up to a point results in an increase in rate of population growth through decline in death date. However decline in death rate in underdeveloped countries is more because of improvements in public health and medical amenities than because of increase in per capita income levels.
2. The functional association between level of per capita income as well as the rate of total income growth is not as easy as is expected in the theory.
3. The theory presumes a set of timeless functional relationships. The timeless approach is unsuccessful in making any difference between short-run economic activities of the developed countries and long-run economic activities of underdeveloped countries.
4. The theory has avoided the rate of state in monitoring the population growth. It is trusted that a rise in per capita income above subsistence level is certain to raise the rate of growth of population till the latter attains 3 per cent and so it is very tough to break the trap. However the empirical evidence is opposite to it. Most governments have adopted well-directed measures to force down the growth rates of population.

All the same, the basic truth of the theory cannot be competed that constant efforts are needed to control the population on one hand and increase the national income on the other. This is the approach to escape from the low equilibrium trap.

Notes

Self Assessment

Fill in the blanks:

6. The Theory of the 'Low-level Equilibrium Trap' has also been called the.....
7. The ..... of the trap depends on the degree of the force of the factors that act to trap an economy.

8.3 Big push Theory

The Big push Theory was created by Prof. Paul N. Rosenstein Rodan in 1943. As per this theory, a "big push" or a big comprehensive programme is required in the shape of a high minimum amount of investment to overcome the hindrances to development in a developing country and to introduce it on the path to growth. Rosenstein Rodan trusted that isolated and small attempts will not make a sustaining influence on economic growth. To cite him, *"Launching a country into self-sustaining growth is a little like getting an aeroplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne. Proceeding 'bit by bit' will not add up in its effort to the sum-total of the single bites."*



Notes If the process of development is to be initiated, a big push in investment is initiated.

The Big Push Model is a notion in development economics or welfare economics that stresses on the fact that a firms decision whether to industrialize or not relies on the anticipation of what other firms will do. It presumes economies of scale and oligopolistic market structure.

Rodan has based his Theory on four types of indivisibilities, namely, (i) indivisibility in the production function, (ii) indivisibility of demand, (iii) indivisibility in the supply of savings; and (iv) psychological indivisibilities.

1. ***Indivisibility in the production function:*** Indivisibilities of inputs or factors result in increasing returns. The most vital form of such indivisibilities is the social overhead capital such as power, transport and communications. The fundamental features of social overhead capital are:
   - It is irreversible in time, that is, investment in social overhead capital must go before investment in directly productive activities.
   - It has a least durability.
   - It has a lengthy gestation period
   - It has a complex minimum industry mix of various types of public utilities.
   - Such indivisibilities of supply of social overhead capital are the main hindrance to economic development, and to be eliminated need big initial lump sum investment.
2. *Indivisibility of demand:* Capital investment in underdeveloped countries is restricted by the fact that these offer only small markets to producers. The small size of markets produces uncertainties, which discourage prospective investors. If, rather, a huge number of industries, which work as complements to each other, are established at the same time, these will develop demand for each other's products and hence offer the essential

Notes

incentives to investors. In other words, indivisibility of demand needs simultaneous big investment in numerous industries.

3. *Indivisibility in the supply of savings:* A big quantum of investment requires a big volume of savings, which is tough to acquire in an underdeveloped economy due to its low levels of income. Small increases in income, consequent upon small extra investment, are possibly to be consumed. Hence, what is needed is a big lump of investment which may generate large extra incomes, a large portion of which may take the shape of savings.

4. *Psychological indivisibilities:* Rodan also converses about a fourth type of indivisibility, which he calls as 'psychological indivisibilities'. As per him "isolated and small efforts may not add up to a sufficient impact on growth - and atmosphere of development effervescence may also arise with a minimum speed or size of investment".

Such indivisibilities make it essential that a big lump of investment is taken on , only they would it be probable to reap the several external economies which have made the development of underdeveloped countries of the yester-year probable.

8.3.1 Criticisms of the Theory

The theory of big push has been criticized chiefly on the plea that the theory develops more issues than it solves. Few of the criticism are as discussed below:

1. Hla Myint has argued that this theory emphasizes on the requirement for huge efforts and big quantum of investment, but it avoids the issue of shortages. In underdeveloped countries there is less availability of skilled labour, dynamic entrepreneurs, domestic capital, etc. The variables could develop issues in the execution of big push programmes.

2. H.E. Ellis has indicated this theory neglects the shortage of saving and risk engaged in the investment. A big quantum if investment might not produce desired results because of market imperfections and structural hindrances.

3. The theory presumes that simultaneous development would produce indivisibilities or external economies in the shape of training and skilled labour in the long run. However there could be a possibility that in the short run every firm might pay each other. The probability of external diseconomies has, perhaps, not been imagined in the theory.

4. The theory focuses on the lumpiness of investment in various industries like consumer goods industries, capital-goods industries, and social overhead capital, etc. But it avoids the development of agriculture. It should be recalled that agriculture as well as industry are corresponding to each other. It is tough to increase the superstructure of industrialization on miserable agriculture.

5. Hla Myint is of the opinion that it is very tough to coordinate several complex development plans begun under the banner of big push. At times the issues of coordination may be outside the competence of strong and effective administrative machinery. Governments are possibly to face problems not only in drawing up of development plans, but also in the implementation of several development projects. In the implementation of several development projects, there are probabilities for the review of original plans, delays and departures from the original time frame.

6. Jacob Viner has indicated indivisibilities, or external economies, usually lead to reducing the cost instead of expanding the output. In a development theory, spread of output is as vital as the reduction of cost. The theory should have described both the features of development. It, however, describes the cost-reduction aspect and avoids the aspect of output expansion.

7. Seven, J. H. Adler has condemned the theory on the ground that it avoids the significance of small investment. His statistical analysis of economic development discloses that a

Notes

comparatively low level of investment pays off well in the shape of extra investment. The likelihood of small push has not been explored by Rodan.

Notwithstanding the several restrictions, big push is essential for converting the socio-economic set-up which is necessary pre-requisite for meeting the requirements of development.

Self Assessment

Fill in the blanks:

8. Big push model assumes economies of scale and ..... market structure.
9. Indivisibilities of ..... lead to increasing returns.
10. Indivisibility of ..... requires simultaneous large investment in a number of industries.

8.4 Balanced Growth and Unbalanced Growth

8.4.1 Balanced Growth

The balanced growth can be described as the methodical and equal prioritization for all sectors and areas of the economy. It concentrates on balanced kind of investment as well as capital mobilization to make the growth more balanced and distributed. Hence, the chief goals of balanced growth are to make the growth of all sectors in a balanced manner simultaneously. This approach has been projected by Ragnor Nurkse and Roseitein Radan. As per Ragnor Nurkse and Roseitein Radan(1943), there are two methods of balanced growth.

In the opinion of Roseitein Radan:

- Investment in all sectors.
- Interdependency in the industry.

'Big push' theory is the theory found by Roseitein Radan for balanced growth to expand the developing countries.

In the opinion of Ragnor Nurkse: Ragnor Nurkse described for developing countries, why such countries are in backwardness?

- Balanced growth is similar to a balanced diet.
- Vicious circle of poverty.
- Emphasis on capital formation and expansion of market.

8.4.2 Unbalanced Growth

The unbalanced growth approaches appears to be the alternative of balanced growth methods. It is pro-founded or backed by Dr. Singer, Paul Streeten, Hirschman, Rostow etc. The significance of unbalanced growth strategy can be depicted as by:

1. *Philosophy of disequilibrium (unbalance):* Philosophy of disequilibrium which develops equilibrium (balance).
2. *Induced investment system:* The induced investment should be conducted for only the high potential (productive) and not for all sectors.

Notes

Assumption: Given below are the assumptions of unbalanced growth method:

- The best approach of development to acquire in developing countries is the unbalanced growth. This depicts the unbalancing the economy makes the growth quicker and simpler.
- The unbalance of economy is conducted by the unequal investment patterns. This depicts the investment is focused on the potential as well as selective sector only.
- The developing countries do not have the sufficient capital to invest in all sectors of economy. So, in case they invest in the sectors' benefit, they can help in better growth of the economy.
- The unbalanced situation of economy develops the balanced condition which additionally makes the economy unbalanced and ultimately economy is balanced. It is a non- ending process.

8.4.3 The theory of Balanced Growth

The theory of 'Balanced Growth' has been presented as a solution to the issue of vicious circle of poverty which troubles the demand side of capital formation. To disrupt this vicious circle, the theory of balanced growth advocates a simultaneous establishing of a huge number of mutually complementary industries that would produce demand for each other's products and hence expand the size of the market and raise inducement to invest.

Rosenstein Rodan gave the first version of the balanced growth theory. He noted that in underdeveloped countries, no latest industry has an opportunity to survive because of limited size of market demand.

Nurkse consented with Rosenstein Rodan and presented the balanced growth theory on identical lines but increased the scope of the balanced growth programme to involve many more industrial sectors.

As per Nurkse, the only method to remove the obstacles coming out of the small size of the market is "more or less synchronised application of capital to a wide range of different industries. Here is an escape from the deadlock, here the result is an overall enlargement of the market. Most industries catering for mass consumption is complementary in the sense that they provide a market for and thus support each other."

The people working in such industries will be buyers of each other's produce. Accordingly, every individual industry shall develop a demand for the goods of the others. The core of Nurkse's theory is that if big investment is carried out in the mutually dependent industries, the vicious circle of poverty can be destroyed and the country can look ahead to the economic advancement.



Example: If a shoe factory is set up employing a hundred workers; the chances are that it would soon close down due to lack of demand for shoes. But if in place of one factory, we simultaneously set up, say, one hundred factories employing thousands of workers, the chances are that all these factories would survive. This is because the additional income in the hands of these workers arising from their employment will create additional demand in the market as they spend money on various products produced by these industries.

Thus demand for shoes, as well as for goods produced by other industries increases that enable all of them to survive and grow.

8.4.4 Theory of Unbalanced Growth

The unbalanced growth recommends the unbalancing in economy. This depicts higher the unbalance (disproportion) higher will be the growth (proportion). This functions with unbalance to balance process. It calls for careful investment in productive sector of economy. Unbalanced

Notes

growth trusts on the principle of disproportion, tension, and disequilibrium. The selective investment by the following two methods:

1. *Convergent series of investment:* It is stimulated (attract) by private sector. These kinds of investment are done for profit. It is also known as DPI (direct productive investment), DPA (direct productive assessment) or DPS (direct productive sector).
2. *Divergent series of investment:* This kind of investment is conducted by public sector which is service oriented. It is also known as SOC (social overhead cost). But, Hirschman choose the SOC. This is because; it endorses quality, social welfare, and distribution of services. This is public sector which engages with SOC.

Self Assessment

Fill in the blanks:

11. The unbalance of economy is made by the unequal ..... patterns.
12. Higher the ..... in economy (disproportion) higher will be the growth (proportion).
13. DPA means .....

8.5 Choice of Technique and its Basic Issues

The foregoing detailed discussion on investment criteria offers us with a framework within which the issue of choice of methods can be discussed.

8.5.1 Meaning

The selection of techniques refers to the kind of factor contained (that is between labour as well as capital in specific) for any project or enterprise. A combination selected for a project offers it a technique of production. The fundamental question is: what should be the methods of production which are prescribed for adoption in projects to be involved in a plan. Generally speaking, the final choice is between labour-intensive and capital intensive methods of production. The chief consideration is that the selection is exercised in such a manner that the objective function laid down in the plan is maximised. In other words, the issue is that it optimizes the selection of technique.

8.5.2 Determinants

The selection of techniques is decided by a number of factors as given below:

- The chosen method should not include an unduly long gestation period.
- The method should not conflict with any of the underlying goals of the plan.
- The technique should assist in developing wide-ranging external economics so that the combined output is much higher than the combined total of the output of individual projects.

8.5.3 Approach to the Choice of Techniques

The problem of selection of techniques has been approached in various ways by varied economists. Three methods are discussed below:

1. *The Maditimas Approach/ The Traditional Approach:* The traditional microeconomics approach to the selection of techniques specifies that any entrepreneurs looking for to

Notes

growth trusts on the principle of disproportion, tension, and disequilibrium. The selective investment by the following two methods:

1. *Convergent series of investment:* It is stimulated (attract) by private sector. These kinds of investment are done for profit. It is also known as DPI (direct productive investment), DPA (direct productive assessment) or DPS (direct productive sector).
2. *Divergent series of investment:* This kind of investment is conducted by public sector which is service oriented. It is also known as SOC (social overhead cost). But, Hirschman choose the SOC. This is because; it endorses quality, social welfare, and distribution of services. This is public sector which engages with SOC.

Self Assessment

Fill in the blanks:

11. The unbalance of economy is made by the unequal ..... patterns.
12. Higher the ..... in economy (disproportion) higher will be the growth (proportion).
13. DPA means .....

8.5 Choice of Technique and its Basic Issues

The foregoing detailed discussion on investment criteria offers us with a framework within which the issue of choice of methods can be discussed.

8.5.1 Meaning

The selection of techniques refers to the kind of factor contained (that is between labour as well as capital in specific) for any project or enterprise. A combination selected for a project offers it a technique of production. The fundamental question is: what should be the methods of production which are prescribed for adoption in projects to be involved in a plan. Generally speaking, the final choice is between labour-intensive and capital intensive methods of production. The chief consideration is that the selection is exercised in such a manner that the objective function laid down in the plan is maximised. In other words, the issue is that it optimizes the selection of technique.

8.5.2 Determinants

The selection of techniques is decided by a number of factors as given below:

- The chosen method should not include an unduly long gestation period.
- The method should not conflict with any of the underlying goals of the plan.
- The technique should assist in developing wide-ranging external economics so that the combined output is much higher than the combined total of the output of individual projects.

8.5.3 Approach to the Choice of Techniques

The problem of selection of techniques has been approached in various ways by varied economists. Three methods are discussed below:

1. *The Maditimas Approach/ The Traditional Approach:* The traditional microeconomics approach to the selection of techniques specifies that any entrepreneurs looking for to

Notes

maximize his profits would select that method of production that reduces the cost of production. Assuming that labour is plenty and hence comparatively cheaper, labour-intensive methods would increase profits as well as output.

An additional modification of the traditional approach is that output should be assessed at shadow prices. It should be properly adapted for other results of investment, like external economy effects and complementary, so that an evaluation of social return on investment could be made. Hence those investments may be conducted where social return on capital is the maximum.

Limitations: The conventional approach closed from the following shortcomings:

(a) It embraces a static framework to tackle with a dynamic issue of economic growth.

(b) The focus in this approach is on efficiency in the usage of resources instead on optimum growth path over duration of time.

(c) The selection of methods is not thought of as ways of speeding the rate of expansion of the economy. The future needs of development do not acquire attention. Thus, this approach is inappropriate in the context of long-term planning.



Notes According to the traditional approach, the production function, together with the relative, prices of factors, determines the choice of techniques.

2. ***Maurice Dobb's Approach:*** Maurice Dobb had faith that the selection of methods should be dictated by its result on the rate of growth. He is prefers Gaslenson Leibenstein MRQ principle of investment planning. Dobb believed that the actual constraints in the issue of choice of techniques associate with the advanced sector, A. Sector A is just about to begin. Originally, the government's investment capacity is restricted by the surplus output over consumption that can be produced in sector B. If this surplus prevails, the government can mobilize it for investment via location, etc. The question is how to invest it.

Assumptions: The model is subject to the assumptions given below:

- Capital goods, which once produced, prevail in perpetuity and are produced with labour alone
- There are only two factors of productions, labour as well as fixed capital.
- There are continuous returns to scale
- Gestation period is uniform in the instance of alternative methods.
- The actual wage rate per unit of time is the same for all methods and is steady through time
- The wage-earners consumers their whole income and the non-wage earned reinvest the entire of it
- There is no technological advancement over time.
- The labour supply to sector A is absolutely elastic at subsistence wage due to unemployment in sector B.

3. ***A.K.Sen's Approach:*** The issue is to select between two alternative methods of production, H and L, the former with a greater, capital-intensity than the latter.

The model utilises the following notations for L methods, the corresponding primed notations being utilised for the H technique.

Notes



Task Study the Choice of technique and its approach and make an interactive presentation.

Self Assessment

Fill in the blanks:

14. The choice of ..... refers to the type of factor contained for any project or enterprise.

15. ..... approach is unsuitable in the context of long-term planning.



Case Study **India Growth Strategy has Lessons for Developing Nations**

India's strategy of eradicating poverty by "growing the pie rather than slicing it", and fuelling the country's growth with market-based policies holds lessons for other developing countries, suggest two leading Indian-American economists. In a new book, Jagdish Bhagwati senior fellow at Council on Foreign Relations (CFR) and Arvind Panagariya, Columbia University professor, demonstrate how growth was the strategy successfully deployed to reduce poverty in India. However, further reforms in labour and land markets are essential to translate growth into more employment, they argue in the new CFR book, "Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries".

Official poverty estimates provided by India's Planning Commission show the proportion of the population below the poverty line in India decreased 17 per cent in two decades, from 44.5 per cent in 1983 to 27.5 per cent in 2004-2005, they note. "We cannot emphasize enough that our analysis, while it is addressed to India's development experience and underlines the centrality of growth in reducing poverty, has clear lessons for aid and development agencies, as well as NGOs that continually work to affect poverty all over the world," Bhagwati and Panagariya concluded.

And while growth generates revenues to provide health and education, "Doors need to be opened wider to the private sector in higher education as well, to permit better access for the massive population of the young," they said. However, India's strong 8.2 per cent growth in the last decade can in part be attributed to the country's poverty-reduction reforms, the authors said. Thus only one strategy will help the poor to any significant effect: economic growth, led by markets overseen and encouraged by liberal state policies, Bhagwati and Panagariya argued.

Questions:

1. Comment upon India's strategy of eradicating poverty.
2. How is India's growth strategy a lesson for developing nations?
3. Critically analyse the case facts and summarize it.

Source: http://news.in.msn.com/national/%E2%80%98india%E2%80%99s-growth-strategy has- lessons-for-developing-nations%E2%80%99

Notes

8.6 Summary

- The strategies commonly applied in economic development are balanced and unbalanced growth strategy, big-push strategy and balanced, unbalanced and big-push (bub) strategy.
- After Independence, India has adopted mixed economy as economic developmental strategy. Both public and private sector co-exist side by side.
- Many approaches are developed in recent years to explain the economic development like take-off approach, the backwardness hypothesis and convergence and Balanced Growth approach.
- The Low-level Equilibrium Trap theory is that as per capita income remains below a critical level, a population growth rate that exceeds the income growth rate will always bring the economy back to a ' Low-level Equilibrium Trap'.
- Getting out of the trap required increasing the rate of growth of income to levels higher than the rate of increase in population.
- The Big Push Model is a concept in development economics or welfare economics that emphasizes the fact that a firms decision whether to industrialize or not depends on the expectation of what other firms will do.
- The balanced growth can be defined as the systematic and equal prioritization for all sectors and regions of the economy.
- The unbalanced growth approaches seems to be the alternative of balanced growth approaches.
- The unbalancing in economy means higher the unbalance (disproportion) higher will be the growth (proportion).
- The choice of techniques refers to the type of factor contained (i.e., between labour and capital in particular) for any project or enterprise. A combination chosen for a project gives it a technique of production.

8.7 Keywords

Accounting Prices: Accounting prices refers to the values of the marginal productivity of sectors when a selection of technique has been made which produces the maximum volume of output, given the availability of resources, the pattern of and demand and the technological possibilities of production.

Balanced growth: The balanced growth can be defined as the systematic and equal prioritization for all sectors and regions of the economy.

Choice of techniques: The choice of techniques refers to the type of factor contained (i.e., between labour and capital in particular) for any project or enterprise.

Indivisibilities: Indivisibilities refer to the external economies of scale.

Shadow Prices: Shadow prices refers to opportunity costs implied by a given resource allocation.

Social Overhead Capital: Social Overhead Capital also known as infrastructure, the supporting structure for production units engaged in production of goods and services.

Vicious Circle of Poverty: A circular constellation of forces tending to act and react upon one another in such a way as to keep a poor, country in a state of poverty.

Notes

8.9 Review Questions

1. Describe the strategies of development.
2. Explain the different approaches to Economic Development.
3. Explain the economic development of India after independence.
4. State the big push theory of growth. Also bring out its limitations.
5. Explain the balanced growth theory.
6. Define balanced growth and unbalanced growth.
7. Differentiate between balanced growth and unbalanced growth.
8. State and explain the theory of low-level equilibrium trap. Also bring out its limitations.
9. What is the problem of choice of techniques? State the traditional approach to the solution of this problem.
10. Examine Maurice Dobb's approach to the problem of choice of technique.
11. Examine Sen's model of choice of technique.

Answers: Self Assessment

1. Balanced
2. Conducive
3. counter-unbalance
4. mixed
5. economic growth
6. Maldusian Trap
7. Strength
8. Oligopolistic
9. inputs or factors
10. demand
11. investment
12. unbalance
13. direct productive assessment
14. techniques
15. Traditional

Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Gupta K.C. & Kaur Harinder (2004). *"New Indian Economy and reforms."* Deep and Deep Publication, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.

Thirlwall A. P. (1999). *"Growth and Development."* Palgrave Macmillan publisher, N. Delhi.

Notes



Online links

http://www.jstor.org/discover/10.2307/2661956?uid=3738256&uid=2129&uid=2&uid=70&uid=4&sid=21102631009333

http://www.preservearticles.com/2011103116267/what-is-the-theory-of-balanced-growth.html

http://www.intranet.kingsmac.co.uk/depts/Economics/resources/a2econ/2886/notes/Development%20Economics/HTML%20Flash%20Format/Models_of_Development/3_6_Balanced_and_Unbalanced_Growth_Theory.htm

Notes

Unit 9: International Trade and Development

CONTENTS

Objectives

Introduction

9.1 Trade and Development

9.1.1 Static Gains from Foreign Trade

9.1.2 Dynamic Gains from Foreign Trade

9.2 Trade Strategy: Export-Led Growth

9.2.1 Arguments for Inward-looking Strategy

9.2.2 Arguments for Outward-looking Strategy

9.3 Dual-Gap Analysis

9.4 Balance of Payments

9.4.1 Concept and Uses

9.4.2 BOP and Developing Economies

9.5 Tariffs and Effective Protection

9.5.1 Effective Tariff Rate

9.6 Globalisation

9.6.1 Implications of Globalisation

9.6.2 Advantages of Globalization

9.6.3 Disadvantages of Globalisation

9.7 Summary

9.8 Keywords

9.10 Review Questions

9.11 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain Trade and Development
- Describe the static gains and dynamic gains from foreign trade
- Discuss trade strategy
- Discuss Dual-Gap Analysis
- Describe Balance of Payments
- Explain tariffs and effective protection
- Discuss Globalisation, its implications and its advantages and disadvantages.

Introduction

Notes

Foreign trade has performed as an "engine of growth" in the past, and even in more current times the "outward-oriented growth strategy" adopted by the Newly-Industrializing Economies of Asia, involving Taiwan, South Korea, Singapore, and Hong Kang, has facilitated them to get over the constraints of small resource-poor under-developed economies. Enhancing expansion of globalization translated into bigger movement of goods and services across the nations. Trade is entwined with another element of globalisation: the expansion of international production networks. Development of trade is firmly supported by international institutions of long standing. The WTO, constructed on the legacy of the GATT, targets to create a commercial environment more favourable to multilateral exchange of goods and services. Current years have seen considerable reductions in trade policy and other obstacles hindering developing country participation in world trade. Lower obstacles have led to a dramatic shift in the design of developing country trade - away from reliance on commodity exports to much higher dependence on manufactures and services. Additionally, exports to other developing countries have turned much more vital.

9.1 Trade and Development

The function of foreign trade in nurturing economic development can be inspected under two headings: (i) static gains from foreign trade, as well as (ii) dynamic gains from foreign trade.

9.1.1 Static Gains from Foreign Trade

The static gains from foreign trade can be briefly mentioned as follows:

In case there is a difference between internal relative prices in economic independence as a national policy and those that can be attained internationally, then a country can enhance its welfare by specializing in and exporting the considerably less costly domestic goods and importing goods that are considerably more costly.

From a development standpoint, the alteration in economic structure and factorial distribution of income that is presumed to escort this adjustment is of obvious concern. As the economic systems of the developing countries are inclined to be a bit unresponsive to changing price incentives, at least in the short term, factors of production may not shift simply to the growing low-cost sectors from the contracting higher-cost sectors. In this instance the adjustment process takes on the features of the "specific-factors model" and the profits from specialization are decreased in the short-run.

Nonetheless, even if a country's production does not alter at all, there are still profits from trade as follows:

1. The features of the import good - either with relation to quality for consumers or productivity in the instance of capital and intermediate inputs may enhance the economy's capability to meet consumer needs. Imports may also assist relieve short-run domestic bottleneck and allow the economy to function closer to its production-possibilities-frontier that is to state, more efficiently on a steady basis.
2. The static influence of trade on the production structure of the economy that happens when specialization pursues comparative advantage will lead to a relative expansion of the sector(s) utilising the comparatively abundant factor. For most developing countries, this leads to incentives to grow labour-intensive production rather than more capital-intensive production. This depicts expanding primary goods, conventional agriculture, and labour-intensive manufactures. International trade hence inspires employment and places upward pressure on wages, as recommended in Heckscher - Ohlin *explanation* of the basis for trade.

Notes

3. Since majority of the developing countries are far eliminated from full employment condition, another potential profit from foreign trade has been explained by Hla Myint. Myint proposes that unemployment depicts a potential production supply that surpasses domestic demand in the developing country. In this case, foreign trade can offer a 'vent for surplus', that is, a big market that will allow the country to raise its output and employment (conceptually, to shift from well inside its production-possibilities-frontier to a point adjacent or maybe on the PPF). Myint argues that outlet for surplus is a more convincing clarification of why countries begin to trade; whereas comparative advantage assists us to understand the kinds of commodities countries finally trade. From a development standpoint, the profits in income, employment, and required import goods can affect the development process in a positive way.

But, these gains from trade are restricted by a number of factors; among these the more vital are as follows:

1. Provided the economic features of several primary goods and labour-intensive manufactures, most observers question the desirability of a comparative growth in the production of conventional goods, especially if this growth is at the expense of contemporary manufacturing. Due to the lower income, low price elasticity of demand for such products and the instability in supply of agricultural and primary production, higher specialisation in such goods can lead to a greater instability of income, even in the stationary sense.
2. To the degree that the developing country is a huge country with relation to export goods, supply may well result in undesired terms-of-trade effects that will vitally decrease the expected static gains from trade and result in a distribution of the profits from trade that prefers the more developed trading partner.
3. Growing production of fundamental labour-intensive products and depending on the industrialized countries for manufactures and capital goods not only can result in a crucial economic dependency but also inextricably connects the economic health of the developing country to that of the industrialized country.
4. To the degree that developing countries are typified by high rates of unemployment, the influence of raised demand for labour on the wage level is frequently restricted.

To summarise, the static gains from trade for a developing economy initiate from the conventional gains from exchange and specialisation as well as, perhaps from a vent for surplus. But, due to the inflexibilities in the conventional economies and the nature of the conventional labour-intensive exports, the comparative static gains from trade may be less than those for the more adaptable industrial economy and also may be decreased by the undesirable effects of raised economic instability and terms-of-trade behaviour.

9.1.2 Dynamic Gains from Foreign Trade

The largest potential influence of trade on development rests with dynamic results. Dynamic results may be both positive and negative.

Dynamic Positive Effects: The main positive effects may be mentioned as follows:

1. The growth of output brought about by access to the bigger international markets allows the developing countries to take benefit of economies of scale that would not be possible with the restricted domestic market. Hence, industries which are not internationally competitive in a secluded market may well be competitive by manner of international trade via expansion of market.
2. As comparative benefits alter over time and with economic development, international trade can nurture the development of infant industries into internationally competitive ones by offering the market size and exposure to products and processes that would not

Notes

take place in its absence. This obviously is one of the motives cited for utilising trade policy instruments to hinder imports or promote exports, though these are issues with utilising the policies in practice.

3. Other dynamic effects of trade on economic development result from the raised investment arising from changes in the economic environment, the raised dissemination of technology into the developing country, exposure to new and varied products, and alterations in institutions that escort the raised exposure to various countries, cultures and products.

Dynamic Negative Effects: As situations in the developing countries vary so radically from the theoretical models, the static application or comparative advantage may not be very useful in offering guidelines for trade as well as specialization in a dynamic developing economy setting. It is vital to inspect briefly several of the more vital demerits of unrestricted trade for the developing country, especially since these concerns can have vital inferences for trade policy.

1. The probable negative effects of trade on development result from factors that are avoided when emphasising on static comparative advantage to define factors and imports. Depending on private (market) prices in this environment can result in a pattern of trade that is not steady with either comparative social costs or long-term development objectives of the country.



Example: Market imperfections in developing countries generally result in private costs and benefits being different from social costs and benefits.

2. In a wider dynamic context, it must also be identified that since the production linkages differ between various commodities or sectors, the total effect of exports on growth and is possibly to differ from commodity to commodity. Few commodities hence act like "growth poles" for the whole economy while others like primary production have little influence outside their own sector.

3. An additional complication results from the variation in the returns to scale feature among commodities. Hence, a country might not seem to have a relative cost advantage in a specific product at the level of production required to fill the home market, however there might well be a comparative advantage in that product at a greater level of production. In an identical fashion, a product that seems to have a recent cost advantage but is typified by decreasing returns to scale may discover its export possibilities very limited.

4. From an internal viewpoint, the domestic supply and demand situations that underlie both present and future comparative advantage have been and will persist to be affected both by the imperfect nature of the markets and by government policy.

5. The operation of markets and the features of traded goods frequently vary between the developing countries and the industrialized countries. Most argue that these differences lead to the greater share of trade related advantages going to the industrialized countries and may even lead to the advancing of underdevelopment in the developing economies.

To summarise, while empirical analysis frequently backs the idea of a positive link between the expansion of international trade and growth in income, a particular ambiguity remains. The way and the degree to which trade affects growth and development is complicated and frequently country-specific. The nature of the effect seems to differ with the extent of development, the nature of the economic system, and world market. World business cycles in specific appear to play a vital role. While empirical analysis has not as yet offered a conclusive answer to the connections between trade and growth, some of the present models of growth via endogenous technological change that incorporate several effects of international trade might turn up to be more successful.

Notes



Caselet **India Likely to Witness Trade Deficit in 2012–2013**

Without a dramatic turnaround in India's export fortunes in the fourth quarter of 2012-13, India is likely to witness a record trade deficit for the fiscal. According to RBI data, India's balance of trade remains tipped in favour of its international trading partners, with imports outstripping exports by almost ₹ 8.3 lakh crore during the April-December, 2012.

In the previous year, the full-year trade deficit amounted to a little less than ₹ 8.9 lakh crore. Of particular concern is that the improvement in export earnings during the first nine months was not commensurate with the sharp rise in the country's import bill in April-December, 2012.

While exports grew by 8.1 per cent in the first nine months of the financial year over the same period the previous year, imports shot up at nearly double the pace (15.7 per cent), resulting in the trade deficit for the period swelling by 11.3 per cent.

At today's exchange rate, the trade deficit amounts to $153.1 billion, more than half of India's foreign exchange reserves of $294.9 billion as of end-October, 2012.

Source: http://www.thehindubusinessline.com/industry-and-economy/india-likely-to-witness-record-trade-deficit-in-201213/article4451872.ece

Self Assessment

Fill in the blanks:

1. Myint suggests that ..... represents a potential production supply that exceeds domestic demand in the developing country.
2. The ..... gains from trade for a developing economy originate from the traditional gains from exchange and specialisation.
3. The biggest potential impact of trade on development rests with ..... effects.

9.2 Trade Strategy: Export-Led Growth

Economists and policy-makers have argued on two competing strategies related to the trade sector: (i) inward-looking strategy, as well as (ii) outward looking strategy.

An inward-looking strategy is an effort to withdraw, at least in the short-run, from complete participation in the world economy. This strategy focuses on import substitution, i.e., the production of goods at home that would otherwise be imported. This can save on scarce foreign exchange and finally produce new manufactured exports if economies of scale are vital in the import-substitution industries and in case the infant industry argument applies. The strategy utilises tariffs, import quotas, subsidies to import-substitute industries, and other measures of this kind.

An outward-looking strategy focuses on participation in international trade by motivating the allocation of resources without price distortions. It does not utilise policy steps to shift production subjectively between serving the home market and foreign markets. In other words, it is an application of production as per comparative advantage.

Few analysts go further and emphasise specifically on export promotion, whereby policy steps like export subsidies, encouragement of skill accumulation in the labour force and the utilisation of more advanced technology, and tax breaks are utilised to produce more exports, particularly labour-intensive manufactured exports consistent with the Heckscher-Ohlin Theorem.

Notes

9.2.1 Arguments for Inward-looking Strategy

The supporters of inward-looking strategy appeal that inward-looking policies motivate indigenous talent, learning to perform things by oneself, domestic technological development and proper range of products, ignoring the ill-effects of demonstration from the external world. Provided gaps of development between the developing as well as the developed countries, inward-looking strategy is proposed as an inevitable one.

9.2.2 Arguments for Outward-looking Strategy

The advocates of outward-looking strategy argue that openness is valuable to cause good educational effects, latest ideas and new methods, growth of latest forms of organization, etc. They believe that free trading motivates learning by trade and infers achievements of dynamic conversion of the economy into higher standards of living. Free trade is a win-win situation, all the trading partners stand to attain via productivity improvements, nevertheless diversities in their domestic institutions and policies.

Quotas and other quantitative limitations, on the contrary, interfere with price mechanism, include allocative and X-inefficiencies, develop distortions and obstruct the advancement of competitive and industries.



Notes Effects of these two types of strategies on growth of output, employment, income generation and income inequalities could also be of diverse nature, and no general inference can be drawn in this context.

Self Assessment

Fill in the blanks:

4. Given gaps of development between the developing and the developed countries, ... strategy is advocated as an inevitable one.
5. ..... is a win-win situation.
6. An ..... strategy emphasizes participation in international trade by encouraging the allocation of resources without price distortions.

9.3 Dual-Gap Analysis

A two-gap analysis of capital needs for economic growth has been placed forth by Hollis Chenery and Michael Bruno. This "two-gap" approach to economic development contends that "saving gap" and "foreign exchange gap" are two separate and independent constraints on the accomplishment of a target rate of growth in DCs. As per this analysis, foreign capital fills both the gaps and assists to get the target rate of growth. The size of gaps can be computed by assuming a target growth rate and a specified capital-output ratio. To demonstrate, in case the target growth rate is 8 per cent per annum, and the capital-output ratio is 4:1, thereafter the country must save 32% of its national income to obtain the growth target. However if the domestic rate of saving is 28%, the saving gap is 4% of national income. This gap can be fulfilled by foreign capital. Likewise, a fixed relationship is envisioned between targeted foreign exchange needs and net export earnings to discover the foreign exchange gap which can be covered by foreign capital inflow.

Notes

The two gaps can be described with relation to the national income accounting identities as below:

$$E - Y \equiv I - S = M - X = F$$

Where,

E is national expenditure

Y is national income

S is saving

M is imports

X is exports

F is net capital inflow

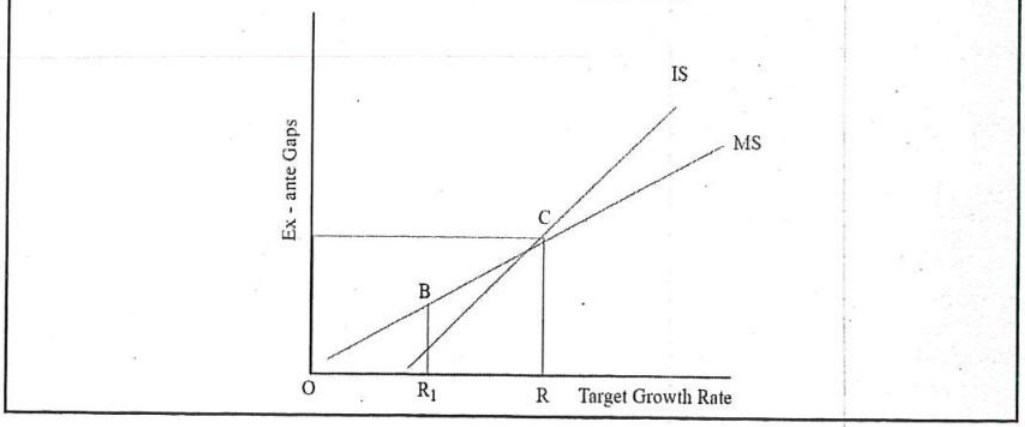
(I – S) depicts the domestic saving gap and (M – X) is the foreign exchange gap. It may be stated here that the two gaps are always equivalent in the ex-post sense in any specific accounting period but they may vary ex-ante like the fundamental national income identities. The motive in this case being that in the long run those who take decisions about savings, investment, exports and imports are dissimilar people.

The dual-gap analysis is on the basis of the following assumptions:

- The potential savings of a country cannot be converted into exports.
- Savings and foreign exchange cannot be replaced for each other.
- There are particular structural rigidities and non-substitutability between varied kinds of goods.
- Export promotion and import substitution policies are rejected.

On the basis of such assumptions, the ex-ante gaps with varied growth rates of income can be discussed with the assistance of Figure 9.1:

Figure 9.1: Dual Gap Analysis



In Figure 9.1, target growth rates are assessed on the x-axis; y-axis measures ex-ante gaps. (I – S) curve depicts the saving gap and (M – X) curve depicts the foreign exchange gap.

At point C, both the gaps are equal and the target growth rate acquired is OR with OC inflow of foreign capital.

In the instance the targeted growth rate is OR_1, the foreign exchange gap is greater than the savings gap by AB. As a consequence, this growth rate will not be acquired as the inflow of foreign capital is not sufficient to fill the greater foreign exchange gap OG_1.

Notes

In case the target growth rate is OR_2, the saving gap is greater than the foreign exchange gap by ED. This growth rate cannot be attained because the inflow of foreign capital is inadequate to inflow of foreign capital to cater to the larger saving gap OF_2. It is not likely to curtail imports because of "The nature and limited flexibility of the productive system and of the composition of consumer demand". Chenery, however, advises changes in the exchange rate and limitations of the pattern of consumption and distribution of income to eliminate these structural rigidities. These measures may succeed in causing adjustments in the two-gaps without foreign capital but they will obstruct growth.

The foreign capital required to fill the gap is decided by the dominant gap at a specific point in time.

1. If the saving gap is greater than the foreign exchange gap, the country is said to be in a savings constraint. In this instance, over the long run the amount of foreign capital needed will equal the gap between the rise in investment and the increase in savings produced by rising income. When the savings gap stops to exist, the target growth rate will be ensured.
2. In case the foreign exchange gap is greater than the savings gap, the country is said to be in a foreign exchange constraint. The inflow of capital can assist overcome the foreign exchange gap and over the long duration the needed foreign capital will equal the difference between the rise in imports and exports and the target growth rate of economy will be made sure.
3. The model hypothesizes stable values of the parameters for the future. This is unrealistic as the marginal savings rate as well as capital-output ratio alter over time.
4. The model treats all kinds of capital investments as homogeneous. This is unrealistic as the capital needs of developing countries relate to varied sectors, projects and industries.
5. Beside the saving gap and foreign exchange gap, the developing countries also experience from other equally vital gaps in technology and infrastructure.

To summarise, dual-gap analysis may have some restricted utility in the calculation of short-run capital needs but over the longer run it is not of much usage.

Self Assessment

Fill in the blanks:

7. A two-gap analysis of capital requirements for economic growth has been put forth by Hollis Chenery and .....
8. The size of gaps can be calculated by assuming a target growth rate and a given ..... ratio.
9. Savings and foreign exchange cannot be ..... for each other.

9.4 Balance of Payments

The main tool for the analysis of the monetary features of international trade is the balance of payments settlement.

9.4.1 Concept and Uses

Balance of payments (BOP), is a methodical record of all international economic transactions, visible and invisible, of a country during a specific period normally a year. In other words, the statement is a device for recording all the economic transactions within a specific duration between the residents of a country as well as the residents of other countries. The BOP of a country, technically speaking, always 'balances'. This equality in the debit and credit sides of

Notes

the BOP, called equilibrium, has no economic importance. It simply arises from the double entry book-keeping procedure which is utilised to record the transactions.

The analysis of the BOP can be done with relation to its two main sub-divisions, viz., (A) namely, i) Current account, and (ii) Capital account.

1. *Current Account:* The current account can be divided into two parts, namely. one, balance of trade, and two, balance of invisibles.

   The balance of trade (BOT) handles only with exports and imports of merchandise (or visible items).

   The balance of invisibles (BOI) depicts the net receipts on account of invisibles. These involve the remittances, net service payments, etc.

   It is not essential that BOT should always balance; more frequently than not it will depict either a surplus or a deficit. Likewise, the BOI will always depict either a surplus or a deficit. A surplus on BOT may be corresponded with a surplus or deficit on BOI. In case the surplus on BOI equals the deficit on BOT, the current account will depict a net balance. However then there is no motive why these two balances should always be equivalent, again, always in conflicting directions. As a matter of fact, the balance on current account can always depict a deficit or a surplus. An excess on current account results in an acquisition of assets or repayment of debts earlier contracted, and a deficit includes withdrawal of earlier accumulated assets or is encountered by borrowings.



Did u know? What is Balance of Trade? Balance of trade is the difference between the values of exports and imports of a country, said to be favorable or unfavorable as exports are greater or less than imports.

2. *Capital Account:* The capital account offers transfers of money and other capital items and alterations in country's foreign assets and liabilities arising from the transactions registered in the current account. The deficit on the current account as well as on account of capital transactions can be financed by external assistance (loans and grants), borrowings from the International Monetary Fund and allotment of the Special Drawing Rights.

   Uses: The BOP account offers a link between the rise in gross external debt and the portfolio as well as spending decisions of the economy.

   Hence, increase in gross external debt = Current account deficit – direct and long-term portfolio capital changes + increases in official reserve + other private capital outflows

   The above equation depicts that a rise in external debt can have three broad sources: i) current account deficits not financed by long-term capital inflows, ii) borrowing to finance a reserve build-up, and iii) private outflows of capital.

9.4.2 BOP and Developing Economies

It is renowned in development economics that developing economies invariably begin as debtor economies. In the process of development itself these economies have to import a huge deal of capital goods, food and raw materials, consumer goods, and spares and components. They also have to import some latest technologies and therefore, the total exchange outgo cannot be corresponded by export earnings. But it is anticipated that soon, as the new capital goods and technologies start to become effective and their products are pointed towards exports, export goods and services become competitive in cost and quality. In that instance, the volume of exports expands and, in due course, starts to surpass exports. A developing economy then progresses from being a debtor country to a balanced one with respect to BOP and, ultimately, turns to a creditor country exporting more than it imports and offering credit to buyers. Hence,

from being a net debtor in the starting, it becomes a net creditor in the close and, in fact, starts to invest abroad instead of have others bending to and investing in it.

Notes

Self Assessment

Fill in the blanks:

6. ..... is a device for recording all the economic transactions within a given period between the residents of a country and the residents of other countries.
7. The current account can be broken in to two parts balance of trade and balance of .....

9.5 Tariffs and Effective Protection

More usually, governments do not stick to free trade in spite of the strong instance for the efficiency and welfare gains from trade that has been obviously established and accepted. Policymakers have proven very resourceful in producing different devices for limiting the free flow of goods and services. Among these, the most vital are import tariffs. Tariffs, usually speaking, are of two kinds: (i) specific tariff, and (ii) ad valorem tariff.

A particular tariff is an import duty that allots a fixed monetary (rupees) tax per physical unit of the good imported. Hence, a specific duty might be ` 25 per ton imported or ` 2 per kg. The total import tax bill is imposed consistent with the number of units coming into the importing country and not as per the price or value of the imports. Tax authorities can gather specific tariffs with ease as they require to know only the physical quantity of imports arriving into the country, not their monetary value. But, certain tariff has a basic disadvantage as an instrument of protection for domestic producers as its protective value differs inversely with the price of the import.

The ad valorem tariff is imposed as a continuous percentage of the monetary value of 1 unit of the imported good.

Example: If the ad valorem tariff is 10 per cent, an imported good with a world price of ₹ 100 will have ₹ 10 tax added as the import duty. If the price rises to ` 200 because of inflation, the import levy rises to ` 20.

Though the ad valorem tariff maintains the protective value of the trade interference for home producers as prices rise, there are issues with this tariff instrument as customs inspectors require to make a judgment on the monetary importance of the imported good. Knowing this fact, the seller of the good is lured to under-value the good's price on invoices so as to decrease the tax burden. On the contrary, customs officials may intentionally overvalue a good to counteract undervaluation or to raise the level of protection and tariff revenue. Nonetheless, ad valorem tariffs have come into extensive use.

9.5.1 Effective Tariff Rate

An issue associated with tariffs concerns the selection of the appropriate tariff rate when assessing the influence of tariffs. The issue includes the distinction between the nominal tariff rate on a good and the effective tariff rate, more usually called the effective rate of protection (ERP).

The nominal rate is merely the rate listing in a country's tariff schedule, whether it is an ad valorem tariff or a specific tariff that can be transformed to an ad valorem equivalent by dividing the specific tariff amount per unit by the price of the good.

The ERP is described as the percentage alteration in the value added in an industry due to the levy of a tariff structure by the country instead of the existence of free trade. When utilising

Notes

the ERP, the main concern is about the degree to which "value added" in the domestic import-competing industry is changed by the prevalence of the entire tariff structure.



Example: The ERP can be illustrated with a numerical example:

Consider a situation in which good F is the final good and goods A and B are intermediate inputs used in making F. Assume that A and B are the only intermediate inputs and that 1 unit each of A and B is used in producing 1 unit of the final good F. Intermediate goods A and B can be either imported or produced in their country but compete with imports and thus have their prices influenced by the tariffs on the competing imports. Suppose that, under free trade, the price of the final good (PF) is ₹ 1,000 and the prices of the inputs are PA = ₹ 500 and PB = ₹ 200. In this free trade situation, the value added is ₹ 1,000 – (₹ 500 + ₹ 200) = ₹ 1000 – ₹ 700 = ₹ 300.

Now consider a situation where protective tariffs exist: a prime mark next to a price (P′) indicates a tariff-protected price. Suppose that the tariff rate (tF) on the final good is 10 per cent and that the tariff on input A (tA) is 5 per cent and on input B (tB) it is 8 per cent. If we assume that the country is a small country then the domestic prices of the goods with the tariffs in place are

P'_F = ₹1000 + 0.10 (₹1000) = ₹1000 + ₹100 = ₹1100

P'_A = ₹500 + 0.05 (₹500) = ₹500 + ₹25 = ₹525

P'_B = ₹200 + 0.08(₹200) = ₹200 + ₹16 = ₹216

The value added in industry F under protection is ₹1,100 – (₹525 + ₹216) = ₹1,100 – ₹741 = ₹359. The industry has experienced an increase in its value added because of the tariffs, and therefore the factors of production working in industry F are able to receive higher returns than under free trade. There is thus an economic incentive for factors of production in other industries to move into industry F. Since the effective rate of protection is the per cent change in the value added when moving from free trade to protection, the ERP in this example is

$$\frac{\text{Value added under protection} - \text{Value added with free trade}}{\text{Value added with free trade}}$$

$$= \frac{VA' - VA}{VA} = \frac{₹359 - 300}{₹300}$$

= 0.197, or 19.7%

Thus, the factors of production in industry F have benefited from the tariffs, although consumers have lost. A more common formula for calculating the ERP for any industry j utilizing inputs designated as i is

$$ERP_j = \frac{t_j \sum_i a_{ij} t_i}{1 - \sum_i a_{ij}}$$

Where aij represents the free-trade value of input i as a percentage of the free-trade value of the final good j, tj and ti represent the tariff rates on the final good and on any input i, respectively, and $i\Sigma$ means that we are summing over all the inputs. In the example, the aij for input A is ₹ 500/₹1000 or 0.50, and the value of the aij for input B is ₹ 200/ ₹ 1000 or 0.20.

This method of computing the ERP has the benefit of illustrating three general rules related to the relationship between nominal rates and effective rates of protection. These rules are as below:

1. In case the nominal tariff rate on the final good is greater than the weighted-average nominal tariff rate on the inputs, then the ERP will be greater than the nominal rate on the ultimate good.
2. In case the nominal tariff rate on the final good is lesser than the weighted-average nominal tariff rate on the inputs, then the ERP will be lesser than the nominal rate on the ultimate good.

Notes

3. In case the nominal tariff rate on the final good is equivalent to the weighted average nominal tariff rate on the inputs, then the ERP will be equivalent to the nominal rate on the ultimate good.

Overall, the nominal tariff rate is valuable for evaluating the price influence of tariffs on consumers. For producers, however, the effective note is more valuable because factors are inclined to flow toward industries with comparatively higher ERPs. In the evaluation of development prospects and economic planning in the developing countries, a strong instance can be conducted for ERPs as analytical tools, even more so than nominal rates of protection.

Self Assessment

Fill in the blanks:

12. The ..... rate is useful for assessing the price impact of tariffs on consumers.
13. The ..... tariff is levied as a constant percentage of the monetary value of 1 unit of the imported good.

9.6 Globalisation

Globalisation, as per the Chambers 20th Century Dictionary, depicts "to make global, that is worldwide, or effecting or taking into consideration the whole world or all people". It has become a buzzword not only for India but all around the world. The notion of globalisation explains the nature in which the economies of various countries of the world are interrelated as well as integrated into a bigger economic enclave. "Globalization" depicts the interdependence of countries arising from the raising integration of trade, people, finance, and ideas in one worldwide marketplace.

Trade liberalisation has been the main policy thrust that propels the globalisation process. The importance of international trade in spearheading economic growth and development process inspires the essence of setting up formidable international trading rules to withstand the dispensation of the world economy.

9.6.1 Implications of Globalisation

Globalisation in its entirety implies the following:

1. There is an expansion of international trade.
2. People migrate from one country or area to another, temporarily or permanently.
3. Money or means of payment are exchanged on a rising scale between countries or areas.
4. Capital flows from one country to another to assist produce goods and services.
5. Finance-not necessarily connected to the production of goods and services – flows between various countries.
6. Conventional corporations arise which progressively engage in the activities enumerated so far.
7. Technology is traded as between various countries. Progressively, with the spread of the patent regimes ruled by the WTO, frontier technologies take a progressively proprietary form.
8. Expansion of print and electronic media.
9. Expansion in trade and production of services of all types – banking, shipping, insurance, health care and, of course, finance.

Notes

In short, globalization infers being able to manufacture in the most cost-effective manner possible anywhere in the world; being able to obtain raw materials and extracting management resources from the inexpensive source anywhere in the world; having the whole world as a single market.

9.6.2 Advantages of Globalization

Supporters of globalisation argue along the following lines:

1. Globalisation assists eliminate X-inefficiency. In the lack of globalization, extended protection of domestic industry has severe distortionary effects on cost structures. Exposure to competition serves as "bracing cold shower".
2. Globalisation assists enhancing the allocative efficiency of resources, decrease the capital output ratio and raise the labour productivity, help to create the export spheres and the export culture, enhance the inflow of capital and updated technology into the country, raise the extent of competition in the domestic economy, decrease the relative prices of industrial and manufactured goods, enhance the terms of trade in agriculture and, in general, offer a boost to the average growth rate of the economy in the years to come.
3. Globalisation assists to restructure the production and trade design in a capital-scarce labour abundant economy in support of labour-intensive goods and labour-intensive methods.
4. With the arrival of foreign competition and the elimination of import tariff barriers, domestic industry will be dependent on price-reducing and quality-improving influences in the domestic economy.
5. With the arrival of foreign capital, the aggregate gross and net investment ratios to GDP will go up, and with a decreased capital output ratio the growth rate will increase.
6. Effectiveness of banking and financial sectors will rise with the opening up of these regions to foreign capital and foreign banks.

9.6.3 Disadvantages of Globalisation

On the other side, globalisation has its shortcomings also. Few of the disadvantages are as follows:

1. The speed at which capital shifts across borders, the quick evolution of management and marketing needs, raise the pressure for structural and conceptual restructuring to a verge of collapse . This is multiplying the human as well as social costs of the globalisation process to a level that tests the social fabric of the democracies in an extraordinary manner.
2. Globalisation process is in essence a huge redistribution of economic power at the world level which will progressively translate into a reallocation of political power.
3. In the globalisation economies of the world are ironically shifting away from one another more than joining together . This change is certain to have an intense destabilising effect.
4. Globalisation process challenges few acquainted assumptions. Until now, for example, it was traditional wisdom that technological change and rises in productivity would translate into greater wages. But in the past few year, technological changes have removed more firms than they have developed.
5. In brief, globalisation is not a free lunch. A developing economy will have to be ready for globalisation; for this well-coordinated initiatives require be taken in the varied sectors of the economy.
6. In the quickly globalising world, international trade, on the basis of comparative advantages among nations, is ready to evolve as the most critical determinant of economic

development. An entire set of multilateral negotiations have been established in motion; these target to offer a perfectly free trade environment so that services, goods, and capital may shift across the globe without any limitations and constrains. The World Trade Organisation has evolved as the standard-bearer.

Notes

Task Give a detailed report on the impact of globalisation on international trade.

Self Assessment

Fill in the blanks:

14. ..... helps remove X-inefficiency.

15. The ..... has emerged as the standard-bearer.

Case Study

Slowdown in India's Foreign Trade Compounds Economic Woes

(*Reuters*) – A sharp slowdown in India's foreign trade added to the woes of Asia's third-largest economy and piled more pressure on the weak coalition government to take steps to boost economic growth.

Indian exports inched up 3.23 per cent to $24.5 billion in April from a year earlier after falling in March, data released on Friday confirmed, a far cry from the more than 20 per cent growth recorded in recent years.

India has been hit by falling demand from its traditional export markets such as the United States, which is struggling to bring down unemployment and Europe, where a sovereign debt crisis tipped many economies back into recession.

The export figures compounded an already gloomy economic picture – GDP data on Thursday showed the economy grew at its slowest pace in nine years in the first three months of 2012. The rupee has also tumbled to record lows this week.

There was fresh evidence of a slowdown in the manufacturing sector, which accounts for nearly 15 per cent of the economy, on Friday as India's top automaker Maruti Suzuki (MRTI. NS) said its car sales in May fell 5.9 per cent, dragged down by high fuel costs and an excise tax hike.

After the shock GDP data, Prime Minister Manmohan Singh awoke to newspaper editorials accusing him of weak leadership and demanding that he take action to arrest the economic slide.

He held a brief meeting of his economic cabinet on Friday evening, but the only item on the agenda was a proposal to lift a ban on the export of skimmed milk powder. One minister leaving the meeting said the economic situation was not discussed.

The meeting capped a bad week for Singh's government, which not only had to contend with awful economic news but a national strike on Thursday against a steep petrol price hike. The increase, a reform cheered by investors, is now expected to be partially rolled back within the next few days. Industry officials had initially said it could come as early as Friday.

Contd...

Notes

Faced with a barrage of dismal economic data in the past few months, the government's chief strategy has been to blame the downturn on high global oil prices and the euro zone debt crisis, while insisting that this is a temporary blip and growth prospects are still good.

This has infuriated investors who say a string of policy u-turns by the government and its failure to take aggressive action to narrow its rising trade and budget deficits and encourage more foreign investment are also to blame.

Piecemeal Approach

"We believe policymakers' decision to continue the bad mix of growth since the credit crisis is at the heart of most of the macro challenges facing the country," Morgan Stanley economist Chetan Ahya said on Thursday.

The government has been criticized for its piecemeal approach to the economic crisis so far. Economists were sceptical about the impact of austerity measures announced on Thursday that included some curbs on government spending.

Singh on Friday also unveiled a new plan to fast-track delayed infrastructure projects to provide fresh impetus to the economy. More than 200 large state-funded road, port and oil pipeline projects are running behind schedule.

In the three years before the global financial crisis, India was roaring with growth above 9 per cent and ambitions to challenge China as the world's top emerging economy.

Standard & Poor's cut India's credit rating outlook in April to negative from stable, worried by its fiscal and current account deficits. The decision jeopardises India's long-term rating of BBB minus, the lowest investment grade rating.

"There is no point blaming the Greeks or the Spaniards for India's economic woes. Nor are the usual suspects, the rain gods, at fault this time," India's Economic Times said. "Growth slowdown is essentially home-made."

Weather forecasters said there was another dark cloud that, unfortunately for India, may not be bearing rain. They said India's annual monsoon rains may be late this year but that it was not yet time to panic.

The rains are crucial for farm output and economic growth as about 55 per cent of the south Asian nation's arable land is rain-fed, and the farm sector accounts for about 15 per cent of a more than $1.5 trillion economy.

In 2009, poor monsoon rains led to the worst drought in nearly four decades, forcing India, a large producer and consumer of farm products, to import foodstuffs such as sugar at sky-high prices, hoisting global prices to record highs.

Questions:

1. Give reasons why a sharp slowdown in India's foreign trade added to the woes of Asia's third-largest economy.
2. Critically analyse the case and summarize it.

Source: http://in.reuters.com/article/2012/06/01/india-economy-manmohansingh-gdp-idINDEE8500C420120601

9.7 Summary

- This unit discussed the implications for, and the effects of, the international economy on the developing nations.
- The unit further discusses about the gains from trade, including static gains and dynamic gains from foreign trade.

Notes

- The static gains from trade for a developing economy originate from the traditional gains from exchange and specialisation as well as, perhaps from a vent for surplus.
- The nature of the effect appears to vary with the degree of development, the nature of the economic system, and world market.
- According to two-gap analysis, foreign capital fills both the gaps and helps to attain the target rate of growth.
- Dual-gap analysis may have some limited utility in the calculation of short-run capital requirements but over the longer run it is not of much use.
- The principal tool for the analysis of the monetary aspects of international trade is the balance of payments settlement.
- A developing economy will have to prepare itself for globalisation; for this well-coordinated initiatives need be taken in the different sectors of the economy.
- Globalization grant access to benefit from the international division of labour, technologies, international specialization, inter-cultural exchange and the consumers enjoy a wider variety of products at lower prices. On the other hand, international trade entails high risks.
- In the past decade, international trade boosted economic growth of developed countries on the expense of developing countries

9.8 Keywords

Ad valorem tariff: The ad valorem tariff is levied as a constant percentage of the monetary value of 1 unit of the imported good.

Balance of payments: Balance of payments (BOP) is a systematic record of all international economic transactions, visible and invisible, of a country during a given period usually a year.

ERP: The ERP, commonly known as effective rate of protection is defined as the percentage change in the value added in an industry because of the imposition of a tariff structure by the country rather than the existence of free trade.

Globalization: Globalization refers to the interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace.

Inward-looking strategy: An inward-looking strategy is an attempt to withdraw, at least in the short-run, from full participation in the world economy. This strategy emphasizes import substitution, that is, the production of goods at home that would otherwise be imported.

Outward-looking strategy: An outward-looking strategy emphasizes participation in international trade by encouraging the allocation of resources without price distortions.

Specific tariff: A specific tariff is an import duty that assigns a fixed monetary (rupees) tax per physical unit of the good imported.

World Terms of Trade: These terms refer to the exchange ratio in the world economy when there is free trade.

9.10 Review Questions

1. Differentiate between static gains and dynamic gains from foreign trade.
2. Describe the trade strategies.
3. Explain in detail the dual-gap analysis.

Notes

4. Explain dynamic effects.
5. Distinguish between dynamic negative effects and dynamic positive effects.
6. Define Balance of Payments
7. Describe the trade tariffs and effective rate protection.
8. Define Globalisation.
9. What are the implications of Globalization?
10. What are the advantages and disadvantages of globalization?

Answers: Self Assessment

1. Unemployment
2. Static
3. dynamic
4. inward-looking
5. Free trade
6. outward-looking
7. Michael Bruno
8. capital-output
9. substituted
10. Balance of payment
11. invisibles
12. nominal tariff
13. ad valorem
14. Globalisation
15. World Trade Organisation

9.11 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.worldbank.org/depweb/beyond/beyondco/beg_12.pdf

http://fse.tibiscus.ro/anale/Lucrari2009/034.%20Duda-Daianu.pdf

Unit 10: International Economic Institutions

Notes

CONTENTS

Objectives
Introduction
10.1 Role of International Institutions in Economic Development
10.2 International Monetary Fund (IMF)
10.2.1 Objectives of IMF
10.2.3 Functions of IMF
10.3 World Bank
10.3.1 Role of The World Bank
10.3.2 Financial Operations
10.4 World Trade Organization
10.4.1 Functions of WTO
10.4.2 Objectives of WTO
10.5 Summary
10.6 Keywords
10.7 Review Questions
10.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the role of International institutions in economic development.
- Describe the objectives and functions of IMF
- Explain the functions of World Bank like the financial operations, technical assistance and other activities of IMF.
- Discuss the functions and objectives of World Trade Organisation (WTO).

Introduction

Presently, notwithstanding differing approaches to development, there is extensive agreement among economists which is promoted by international institutions about the supreme significance of strong and effective institutions for making sure good governance and endorsing growth with equity and stability.

Institutions depict norms, rules of conduct and to well defined and formal organisations that rule the way the society functions e.g. the role of the state in economic life, judicial system, administrative system, mechanism of getting into power, laws associated with private property and contracts, agencies for monitoring economic and financial system, labour market relationships, educational structure, laws of taxation and inheritance and preparations for provision of credit.

The main development paradigm in the quarter century after World War II allocated a major role for the state in poor lands by presuming the state to have specific features that it turned out not to have. In the name of planning, a regulatory framework and mechanisms for assigning

Notes

resources were developed. In exercising this control, quantitative restrictions instead of price based measures were most frequently utilised. A disordered incentive structure and the releasing of rapacious rent seeking and resource diversion were the results.

Free market policies in current years have attained powerful support from the International Monetary Fund (IMF) as well as the World Bank. A huge number of countries which are acquiring help from IMF under its Poverty Reduction and Growth Facility (PRGF), as well as sector adjustment loans from the World Bank have to follow the conditionality of pulling back the interventionist state.

10.1 Role of International Institutions in Economic Development

The three chief bodies accountable for regulating international economic affairs – the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO) – play a central function in defining and strengthening how the global economy works.

The WTO evolved out of the General Agreement on Tariffs and Trade (GATT) in 1995; it is an arrangement across countries that act as a forum for negotiations on trading rules and a mechanism for dispute settlements in trade problems. By contrast, the World Bank and IMF tackle with their member countries one at a time. They have little impact with industrial countries but can influence developing countries at times of economic crisis and when such countries seek extra foreign exchange resources. The origins and emergence of the three organizations are of substantial interest. Perhaps even more important vital in light of the current financial crisis in Mexico, East Asia, and some other countries, is the questions that emerge related to the current and future functions of the IMF and the World Bank.

These questions cover an extensive set of issues. A healthy open trading system is important for the advancement of the international economy. It is especially important in offering an environment in which developing countries can successfully reform their policies and acquire quick economic growth and increasing living standards for all. The relationship between preferential trading arrangements, like the North American Free Trade Agreement (NAFTA), and the WTO is of huge interest to many economists. The issue is easy: the WTO is founded on the principle of open, non-discriminatory trade among its members, whereas preferential trading arrangements are, by their character, discriminatory.



Example: Under NAFTA, goods originating in Mexico and Canada are not subject to duties when they enter the United States, yet the same goods from other countries are subject to U.S. duties.

Self Assessment

Fill in the blanks:

1. The WTO emerged out of the ..... in 1995.
2. The World Bank and IMF deals with their ..... countries one at a time.

10.2 International Monetary Fund (IMF)

The International Monetary Fund was developed in 1944, with an objective to stabilize exchange rates and manage the reconstruction of the world's international payment system. IMF is an organization of 185 countries. With the exclusion of North Korea, Monaco, Cuba, Nauru, Andorra, Tuvalu, and all UN member states take part directly in the IMF.

The genesis of the International Monetary Fund (IMF) rests in the experience of countries at the time of the great depression. In the 1930s. most countries tried to maintain domestic income in

Notes

face of shrinking markets via competitive devaluation of their currencies and turn to exchange and trade restrictions. Such steps could attain their objectives only by aggravating the problems of trading partners who, in self-defence, were guided to adopt similar policies. There was an increasing recognition of the largely self-defeating nature of such 'beggar my neighbour policies' at the country level and of their contribution to lower trade and employment and a less effective allocation of resources at the worldwide level.

This led to a widening acceptance of the requirement for an agreed code of conduct in international trade and financial matters.

It was against this setting that at the United Nation Monetary and Financial Conference, which was attended by delegates of 45 countries and was organised at Bretton Woods, New Hampshire, on July, 1944, decision to establish the International Monetary Fund was taken. IMF came into being on December 27, 1945, when 29 countries signed the Articles of Agreement. The inaugural meeting of the Board of Governors was organised in Savannah, Georgia on March 8, 1946, and the initial meeting of the Executive Board was arranged at Funds headquarters in Washington, DC on May 6, 1946. The Fund started financial operations on March 1, 1947.

10.2.1 Objectives of IMF

The first Article of the Fund's charter put down six objectives for the organization. These are:

1. To promote international cooperation by offering the machinery for consultation and teamwork by members on international monetary problems.
2. To enable the balanced growth of international trade and through this, lead to high levels of employment and actual income and the development of productive capacity.
3. To encourage exchange stability and systematic exchange arrangements and enable the avoidance of competitive currency depreciation;
4. To nurture a multilateral system of payments and transfers for recent transactions and seek the removal of exchange restrictions which restrict the growth of world trade;
5. To make financial resources accessible to members, on a temporary basis and with sufficient safeguard to allow them to correct payment in balances without resorting to steps related to destruction of national or international prosperity and;
6. To seek decrease of both the duration and magnitude of payments imbalances.

10.2.3 Functions of IMF

IMF functions can be extensively grouped into three main categories. These are:

1. To frame and administer a code of conduct with relation to exchange rate policies and restrictions on payments for recent account transactions.
2. To offer members with financial resources to facilitate them to follow the code of conduct while they were correcting or ignoring payment imbalances.
3. To offer a forum in which the IMF could check with one another and cooperate on international monetary matters.



Notes The IMF is only one of many international organizations and it is a generalist institution for macroeconomic issues only; its core areas of concern in developing countries are very narrow. One proposed reform is a movement towards close partnership with other specialist agencies in order to better productivity.

Notes

face of shrinking markets via competitive devaluation of their currencies and turn to exchange and trade restrictions. Such steps could attain their objectives only by aggravating the problems of trading partners who, in self-defence, were guided to adopt similar policies. There was an increasing recognition of the largely self-defeating nature of such 'beggar my neighbour policies' at the country level and of their contribution to lower trade and employment and a less effective allocation of resources at the worldwide level.

This led to a widening acceptance of the requirement for an agreed code of conduct in international trade and financial matters.

It was against this setting that at the United Nation Monetary and Financial Conference, which was attended by delegates of 45 countries and was organised at Bretton Woods, New Hampshire, on July, 1944, decision to establish the International Monetary Fund was taken. IMF came into being on December 27, 1945, when 29 countries signed the Articles of Agreement. The inaugural meeting of the Board of Governors was organised in Savannah, Georgia on March 8, 1946, and the initial meeting of the Executive Board was arranged at Funds headquarters in Washington, DC on May 6, 1946. The Fund started financial operations on March 1, 1947.

10.2.1 Objectives of IMF

The first Article of the Fund's charter put down six objectives for the organization. These are:

1. To promote international cooperation by offering the machinery for consultation and teamwork by members on international monetary problems.
2. To enable the balanced growth of international trade and through this, lead to high levels of employment and actual income and the development of productive capacity.
3. To encourage exchange stability and systematic exchange arrangements and enable the avoidance of competitive currency depreciation;
4. To nurture a multilateral system of payments and transfers for recent transactions and seek the removal of exchange restrictions which restrict the growth of world trade;
5. To make financial resources accessible to members, on a temporary basis and with sufficient safeguard to allow them to correct payment in balances without resorting to steps related to destruction of national or international prosperity and;
6. To seek decrease of both the duration and magnitude of payments imbalances.

10.2.3 Functions of IMF

IMF functions can be extensively grouped into three main categories. These are:

1. To frame and administer a code of conduct with relation to exchange rate policies and restrictions on payments for recent account transactions.
2. To offer members with financial resources to facilitate them to follow the code of conduct while they were correcting or ignoring payment imbalances.
3. To offer a forum in which the IMF could check with one another and cooperate on international monetary matters.



Notes The IMF is only one of many international organizations and it is a generalist institution for macroeconomic issues only; its core areas of concern in developing countries are very narrow. One proposed reform is a movement towards close partnership with other specialist agencies in order to better productivity.

Notes



Caselet **The IMF has Created an Immoral System of Modern day Colonialism that SAPs the Poor**

The IMF along with the WTO and the World Bank has put the global economy on a path of greater inequality and environmental destruction. The IMF's and World Bank's structural adjustment policies (SAPs) ensure debt repayment by requiring countries to cut spending on education and health; eliminate basic food and transportation subsidies; devalue national currencies to make exports cheaper; privatize national assets; and freeze wages. Such belt-tightening measures increase poverty, reduce countries' ability to develop strong domestic economies and allow multinational corporations to exploit workers and the environment A recent IMF loan package for Argentina, for example, is tied to cuts in doctors' and teachers' salaries and decreases in social security payments.. The IMF has made elites from the Global South more accountable to First World elites than their own people, thus undermining the democratic process.

Source: http://www.globalexchange.org/resources/wbimf/oppose

Self Assessment

Fill in the blanks:

4. The genesis of the ..... lies in the experience of countries during the great depression.
5. IMF is an organization of ..... countries.
6. IMF seeks reduction of both the duration and magnitude of payments .....

10.3 World Bank

The World Bank came into being in reaction to felt need that attention of the world would have to be offered to not only the instant relief and physical reconstruction of the economies damaged by war but also to the "expansions, by appropriate International and domestic measures of production, employment and the exchange and consumption of goods which are the material functions of the liberty and welfare of all people."

10.3.1 Role of The World Bank

The World bank seeks to:

- helps developing countries via long-term financing of development projects and programs
- encourage the economic development of the world's poorer countries
- motivates private enterprises in developing countries via its affiliate, the International Finance Corporation (IFC)
- offers to the poorest developing countries whose per capita GNP is lower than $865 a year exclusive financial assistance through the International Development Association (IDA)

Since initiation, the World Bank has grown from a single institution to a closely related group of five development institutions. These are

1. The International Bank for Reconstruction and Development (IBRD) loans to governments of middle-income and creditworthy low-income countries.

Notes

2. The International Development Association (IDA) offers interest-free loans—known as credits— and grants to governments of the poorest countries.
3. The International Finance Corporation (IFC) offers loans, equity and technical assistance to inspire private sector investment in developing countries.
4. The Multilateral Investment Guarantee Agency (MIGA) offers guarantees against losses produced by non-commercial risks to investors in developing countries.
5. The International Centre for Settlement of Investment Disputes (ICSID) offers international amenities for conciliation and arbitration of investment disputes.



Did u know? World Bank started functioning in 1946 and its headquarters are located in Washington DC. The World Bank promotes world development, increase productivity and standards of living in the less developed countries of its membership and assists in the international bank for reconstruction and development.

10.3.2 Financial Operations

IBRD capital is extracted from member's subscription to capital schemes, the computation of which is on the basis of their quotas in the IME Majority of loanable funds arrive from borrowing, on commercial terms, in world capital markets, and also from its reserved earnings, and the flow of repayments on its loans. IBRD loans hold a variable interest, instead of a rate fixed at the time of borrowing.

IBRD loans, made to governments straight away on guaranteed by them, are repayable over years with a grace period of 5 years. These loans are usually made for projects possibly to provide a commercially viable rate of return. In 1980, the Bank launched structural, adjustment ending, which (rather than financing specific projects) backs programmes and changes essential to alter the structure of an economy so that it can restore or preserve its growth as well as viability in its balance of payments over the medium term.

In mid-1994, the World Bank Group issued a review of its role and activities (to observe the 50th anniversary of its foundation) named 'Learning from the Past, Embracing the future'. In this, the Bank recognised the following five main development problems on which it is intended to concentrate in the future:

6. the economic reforms
7. the protection of environment
8. health, nutrition and family planning programmes.
9. investment in people, in particular through education
10. stimulation of the private sector and
11. reorientation of government, so as to improve the private sector by reforming and reinforcing the public sector.

The Bank's efforts to decrease poverty consists of two elements: the compiling of country particular assessments and the preparation of country particular strategies to make sure that the Bank's own projects support and complement the programmes of the country concerned. A committee on Development Effectiveness addresses issues associated with the relevance and effectiveness of operations and controls execution of decision taken by the Board of Governors on the matter. Such principles of lending policy stated by the Bank are mirrored in its lending.

The Bank also works together with other UN agencies in tackling issues of developing countries. In September, 1996, the World Bank / IMP; Development Committee authorized a joint

Notes

initiative to help heavily indebted poor countries to decrease their debt burden, in instances where it obstructs poverty decrease and economic growth. A new trust fund for that reason was established by the Bank.

10.3.3 Technical Assistance Programmes

The facility of technical assistance has become a main component of World Bank activities. The economic sector and project analysis carried out by the Bank in the normal course of its functions is the vehicle for substantial technical assistance. Additionally, project loans and credits may involve funds reserved specially for feasibility studies, resource surveys management or planning advice, and training. In 1975, the Project Preparation facility (PPP ;) was set up to offer cash advance to plan projects which may be financed by the Bank. Technical assistance (normally reimbursable) is also expanded to countries that do not require Bank financial assistance, for example, for training and transfer of technology.

In 1992, the Bank set up an Institutional Development Fund (IDF) which became functional on 1st July, for offering quick, small scale financial assistance to a maximum extent of $500,000 for capacity building proposals.

10.3.4 Other Activities

The Bank has a strong research programme concentrating on problems like maintaining sustainable growth whereas protecting the environment and the poorest sections of society, motivating the development of the private sector, and decreasing and decentralizing government activities. It also works together with FA0 and UNDP in the region of agricultural research.

The Bank join forces with IMF in executing structural adjustment programmes in developing countries, It has also joined forces with the UNDP and the UN Environment Programme, which targets at helping developing countries in executing projects that benefit the global (and not merely the local) environment. Areas included are: climate change, biodiversity, the phase out of ozone depleting substances; and international water.

To offer training for government officials at the middle as well as upper level of responsibilities, who are related to development programmes and projects, the IMF set up Economic Development Institute in 1955. In 1996, the World Bank established International Centre for Settlement of Investment Disputes. The broad goal of the centre is to settle any dispute that might result from investment between the contracting state as well as the foreign investor by conciliation and / or arbitration prior to an impartial international forum.

Set up of a Multilateral Investment Guarantee Agency (MIGA) in April 1988 was yet another dimension of the World Bank activities. MIGA's motive is to guarantee eligible investment against losses arising from non-commercial risk under four groups: risk of loss arising from legislative or administrative actions of host government, transfer risk, repudiation or contracts by host governments and the risk of armed conflict and civil unrest. MIGA also offers policy and advisory services to encourage foreign investment in developing countries and in transitional economics and to distribute information on investment opportunities.

Task Form a group and discuss the points of difference between IMF and World Bank.

Self Assessment

Fill in the blanks:

6. The ..... lends to governments of middle-income and creditworthy low-income countries.

Notes

7. The ..... provides guarantees against losses caused by non-commercial risks to investors in developing countries.

8. ICSID stands for .....

10.4 World Trade Organization

The World Trade Organization (WTO) is the sole global international organization tackling with the rules of trade between nations. At its core are the WTO agreements, negotiated and signed by the majority of the world's trading nations and ratified in their parliaments. The objective is to assist exporters, producers of goods and services, and importers perform their business.

The WTO's aim and function are to eliminate tariff and nontariff barriers and offer a mechanism for resolving disputes between member states. But, the WTO has limits. Two of the forces constituting these limits are consensus as well as expertise. Consensus is still the catchphrase for the WTO. Consensus has had a positive influence on confining those who would convert the WTO into an economic sanctions-granting form of the United Nations, and consensus keeps the membership concentrated on the important business of trade. Expertise and the identification of the limits of the regions of expertise is another limiting force on the WTO.

WTO is best at disputes settlement in trade problems. Trade disputes are brought in front of the WTO at roughly three times the rate that had characteristically been handled by the GATT.



Did u know? The WTO agreements cover trade in goods, trade in services, and intellectual property spelling out the principles of liberalization, and the permitted exceptions. The agreements include individual Members' commitments to lower customs tariffs and other trade barriers, and to open and maintain open services markets, and to protect intellectual property.

10.4.1 Functions of WTO

The former GATT was not actually an organization; it was simply a legal arrangement. On the contrary, the WTO is a latest international organization set up as a permanent body. It is planned to play the function of a watchdog in the areas of trade in goods, foreign investment, trade in services, intellectual property rights, etc. Article III has started the following five roles of WTO:

1. The WTO shall enable the execution, administration and operation and further the goals of this Agreement and of the Multilateral Trade Agreements, and shall also offer the frame work for the execution, administration and operation of the plurilateral Trade Agreements.
2. The WTO shall offer the forum for negotiations among its members regarding their multilateral trade relations in ways tackled with under the Agreement in the Annexes to this Agreement.
3. The WTO shall manage the understanding on rules and procedures ruling the settlement of disputes.
4. The WTO shall manage Trade Policy Review Mechanism.
5. With a view to acquiring greater coherence in global economic policy making, the WTO shall cooperate, as suitable, with the international Monetary Fund (IMF) as well as with the International Bank for Reconstruction and Development (IBRD) and its associated agencies.

Furthermore, it is the WTO's duty to analyse and propagate the national trade policies. Another main concern of the WTO is the assistance of least-developed, developing, and low-income countries in transition to adapt to WTO rules and disciplines via technical cooperation and training.

Notes

The WTO is also an epicentre of economic research and analysis: regular evaluations of the global trade picture in its annual publications as well as research reports on particular topics are generated by the organization. Ultimately, the WTO cooperates intimately with the two other elements of the Bretton Woods system, the IMF and the World Bank.

Notes The WTO is an inter-governmental organization. Members make decisions by consensus.

10.4.2 Objectives of WTO

Vital goals of WTO are stated below:

1. To execute the new world trade system as imagined in the Agreement;
2. To promote World Trade in a way that profits every country;
3. To make sure that developing countries secure a better balance in the sharing of the benefits arising from the expansion of international trade matching their developmental needs;
4. To devour all hurdles to an open world trading system and introduce international economic renaissance as the world trade is an effective instrument to nurture economic growth;
5. To improve competitiveness among all trading partners so as to benefit consumers and assist in global integration;
6. To raise the level of production and productivity with a view to safeguarding the level of employment in the world;
7. To develop and use world resources to the best;
8. To enhance the level of living for the global population and increase economic development of the member nations.

Self Assessment

Fill in the blanks:

9. The WTO's goal and function are to remove .....and .....barriers.
10. ..... are brought before the WTO at approximately three times the rate that had typically been handled by the GATT.
11. The WTO shall administer the understanding on rules and procedures governing the settlement of .....

Case Study **WTO Risks Irrelevancy, New Chief Warns**

World Trade Organization members must agree in December on a package of measures to liberalize trade or risk becoming irrelevant after 12 years of failed talks, the new head of the world trade body warned on Monday.

"The perception in the world is we have forgotten how to negotiate," WTO Director General Roberto Azevedo said, in Geneva, in his first speech to the WTO's full membership since taking office on September 1.

Contd...

Notes

"Our failure to address this paralysis casts a shadow which goes well beyond the negotiating arm, and it covers every other part of our work. It is essential that we breathe new life into negotiations. We must send a clear and unequivocal message to the world that the WTO can deliver multilateral trade deals," he said.

U.S. Ambassador to the WTO Michael Punke, in a separate speech to the WTO General Council, echoed the importance to the WTO's credibilty of reaching a deal when top trade officials from the 159 member countries meet, in Bali, in December.

He also gave a sober assessment of the chance of achieving that result.

"The good news is that a meaningful deal remains possible, if only just barely," Punke said.

Azevedo, who until recently was Brazil's ambassador to the WTO, survived a round-robin series of votes against eight other candidates to succeed Pascal Lamy, a Frenchman, as head of the organization.

The WTO was created out of the last successful round of multilateral trade negotiations, which lasted from 1986 to 1994 and were dominated by big developed country players, such as the United States and the European Union.

Azevedo is the first Latin American to head the organization and comes from a country that was frequently at loggerheads with the United States in the Doha round of world trade talks, which were launched in 2001 and have never been brought to a close because of disagreements over how much the U.S. and EU should cut farm subsidies and tariffs in exchange for other countries opening up their agricultural, manufacturing and services markets.

President Barack Obama and other G20 leaders meeting in Russia last week agreed "to achieve a strong multilateral agreement this December," according to a White House fact sheet, in a statement reminiscent of repeated unheeded calls by world leaders for a successful conclusion of the Doha round.

Twelve years into those talks, hopes of a wide-ranging agreement covering services, manufacturing, agriculture and other areas have been shelved and negotiators are now mainly focused on a so-called "trade facilitation" package aimed at reducing red tape and other measures that slow down trade as it moves across border.

The "main stumbling block" to a deal in Bali is India's push for a separate agreement that would allow it to greatly increase farm subsidies, undermining a decade of WTO negotiations aimed in the opposite direction, said Jeffery Schott, a senior fellow at the Peterson Institute for International Economics in Washington.

"To do something meaningful (in Bali), will require real work" by WTO members over the next 84 days and Azevedo deserves praise for getting off to a running start, Schott said.

Still, even if a deal can be reached on India's subsidy demand, many developing countries are wary of a trade facilitation agreement because they worry it will expose local firms to increased foreign competition, said Hosuk Lee-Makiyama, a director at the European Centre for International Political Economy (ECIPE), in Brussels.

If the trade facilitation talks fail, one other possible positive outcome in Geneva could be a deal to expand duty-free treatment under the 1996 International Technology Agreement to a new generation of technology products, he said.

Meanwhile, both the Bali meeting and a growing list of other U.S.-India trade frictions are expected to be on the agenda when Obama hosts Indian Prime Minister Manmohan Singh later this month for talks at the White House.

Questions:

1. Critically analyse the case study.
2. How does WTO liberalise the Trade issues?

Source: http://www.politico.com/story/2013/09/wto-risks-irrelevancy-new-chief-warns-96483.html?hp=r5

Notes

"Our failure to address this paralysis casts a shadow which goes well beyond the negotiating arm, and it covers every other part of our work. It is essential that we breathe new life into negotiations. We must send a clear and unequivocal message to the world that the WTO can deliver multilateral trade deals," he said.

U.S. Ambassador to the WTO Michael Punke, in a separate speech to the WTO General Council, echoed the importance to the WTO's credibilty of reaching a deal when top trade officials from the 159 member countries meet, in Bali, in December.

He also gave a sober assessment of the chance of achieving that result.

"The good news is that a meaningful deal remains possible, if only just barely," Punke said.

Azevedo, who until recently was Brazil's ambassador to the WTO, survived a round-robin series of votes against eight other candidates to succeed Pascal Lamy, a Frenchman, as head of the organization.

The WTO was created out of the last successful round of multilateral trade negotiations, which lasted from 1986 to 1994 and were dominated by big developed country players, such as the United States and the European Union.

Azevedo is the first Latin American to head the organization and comes from a country that was frequently at loggerheads with the United States in the Doha round of world trade talks, which were launched in 2001 and have never been brought to a close because of disagreements over how much the U.S. and EU should cut farm subsidies and tariffs in exchange for other countries opening up their agricultural, manufacturing and services markets.

President Barack Obama and other G20 leaders meeting in Russia last week agreed "to achieve a strong multilateral agreement this December," according to a White House fact sheet, in a statement reminiscent of repeated unheeded calls by world leaders for a successful conclusion of the Doha round.

Twelve years into those talks, hopes of a wide-ranging agreement covering services, manufacturing, agriculture and other areas have been shelved and negotiators are now mainly focused on a so-called "trade facilitation" package aimed at reducing red tape and other measures that slow down trade as it moves across border.

The "main stumbling block" to a deal in Bali is India's push for a separate agreement that would allow it to greatly increase farm subsidies, undermining a decade of WTO negotiations aimed in the opposite direction, said Jeffery Schott, a senior fellow at the Peterson Institute for International Economics in Washington.

"To do something meaningful (in Bali), will require real work" by WTO members over the next 84 days and Azevedo deserves praise for getting off to a running start, Schott said.

Still, even if a deal can be reached on India's subsidy demand, many developing countries are wary of a trade facilitation agreement because they worry it will expose local firms to increased foreign competition, said Hosuk Lee-Makiyama, a director at the European Centre for International Political Economy (ECIPE), in Brussels.

If the trade facilitation talks fail, one other possible positive outcome in Geneva could be a deal to expand duty-free treatment under the 1996 International Technology Agreement to a new generation of technology products, he said.

Meanwhile, both the Bali meeting and a growing list of other U.S.-India trade frictions are expected to be on the agenda when Obama hosts Indian Prime Minister Manmohan Singh later this month for talks at the White House.

Questions:

1. Critically analyse the case study.
2. How does WTO liberalise the Trade issues?

Source: http://www.politico.com/story/2013/09/wto-risks-irrelevancy-new-chief-warns-96483.html?hp=r5

Notes

10.5 Summary

- The International Monetary Fund seeks to foster a multilateral system of payments and transfers for current transactions.
- lymph formulates and administers a code of conduct regarding exchange rate policies and restrictions of payments for current account transactions and provides members with financial resources to enable them to observe the code of conduct while correcting and avoiding payments imbalances.
- The Fund provides balance of payments assistance by selling the members in exchange for their own currencies, the currencies of other members or Special Drawing Right.
- The World Bank came into existence in response to felt need that there would be a pressing need for international finance to finance both the reconstruction of productive facilities destroyed by the war, principally in Western Europe, and an increase in the productivity and living standards, especially in the underdeveloped areas of the World.
- The World bank helps governments in developing countries and reduces poverty. they provide them with money and technical expertise they need.
- The world trading system manages the balance between the pursuit of national advantage on one hand and concessions requisite for participation in a cooperative arrangement involving competitive nation-states.
- The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
- The WTO's goal and function are to remove tariff and nontariff barriers and provide a mechanism for solving disputes between member states.

10.6 Keywords

Floating Currency: A currency whose value responds to the supply of and demand for that currency.

International Development Association IDA: International Development Association IDA is a World Bank affiliate, aims its assistance to poorer developing countries whose balance of payments could not sustain the burden of repayments required for World Bank loan.

International Monetary Fund (IMF): A multi governmental association to promote exchange rate stability and to facilitate the international flow of currencies.

Operations of Funds: Uses or receipts of monetary assets by Fund, such as allocations of SDRS on payment of changes of fund.

Par Value: The benchmark value of a currency, quoted in terms of gold or US dollar.

Special Drawing Right (SDR): A unit, of account issued to countries by the International Monetary fund to expand their official's reserves bases.

Transactions of Funds: Exchanges of money assets for other assets.

10.7 Review Questions

1. What were the basic reasons for setting up the International Monetary Fund?
2. What is the IMF? Explain the objectives of IMF.
3. Discuss the role of IMF in present day exchange rate system.

4. Describe the functions of IMF.
5. What is the role of World Bank in promoting economic development?
6. Do you see any significant change in the Bank's lending policies? Discuss.
7. The World Bank has expanded from a single institution to closely associated group of development institutions. Name those institutions.
8. Discuss the functions of WTO.
9. What role does WTO plays in economic development?
10. WTO is best at disputes settlement in Trade issues. How?
11. Explain the important objectives of WTO.

Notes

Answers: Self Assessment

1. General Agreement on Tariffs and Trade (GATT)
2. Member
3. International Monetary Fund (IMF)
4. 185
5. imbalances
6. International Bank for Reconstruction and Development (IBRD)
7. Multilateral Investment Guarantee Agency (MIGA)
8. International Centre for Settlement of Investment Disputes.
9. tariff, nontariff
10. Trade disputes
11. disputes

10.8 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). "*Planning Local Economic Development: Theory and Practice.*" SAGE.

Datt Ruddar & Sundharam KPM (2008). "*Indian Economy.*" S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). "*Economics of Development and Planning, Volume 2.*" Atlantic Publishers & Dist.

Mahajan V.S. (1986). "*Economic Development of India.*" Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). "*Development and Planning Economy: Environmental and resource issues.*" Taylor & Francis.



Online links

http://www.worldbank.org/depweb/english/beyond/beyondco/beg_01.pdf

http://blogs.law.uiowa.edu/ebook/sites/default/files/Part_1_2_0.pdf

http://assembly.coe.int/documents/adoptedtext/ta02/eres1269.htm

http://www.slideshare.net/subhajitb14/world-bank-objectives-functions

Notes

Unit 11: Economic Planning in India

CONTENTS

Objectives
Introduction
11.1 Economic Planning in India
11.1.1 Objectives of economic planning
11.1.2 Advantages of Economic Planning
11.2 Planning Commission of India
11.2.1 Functions of Planning Commission
11.3 Planning Strategy in India
11.4 India's Five Year Plans: All at a glance
11.5 Summary
11.6 Keywords
11.7 Review Questions
11.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Define Economic planning and its objectives and advantages.
- Explain the objective and role of Planning Commission of India.
- Discuss the functions of Planning Commission
- Describe the planning strategy in India
- Analyse the Five Year Plans in India

Introduction

Indian planning is an open process. Most of the controversy and the debates that escort the preparation of the plans are public. The first aggregate computations and assumptions are either explicitly mentioned or promptly deducible, and the makers of the plans are not only considerate but responsive to criticism and suggestions from an extensive variety of national and international sources. From initial formulation via successive changes in parliamentary presentation, plan making in India has emerged as a responsive democratic political process.

11.1 Economic Planning in India

Just after the acquisition of independence, the Government of India established the Planning Commission in 1950 to make an evaluation of the capital, material, and human resources of the country and to frame a plan for its most efficient and balanced use of the country's resources.

The initial Five Year Plan was introduced in 1951 and with this India boarded upon the programme of planned economic development of the country. The First Five Year Plan included the era 1951–56 pursued by the Second Plan (1956–61) and the Third Plan (1961-66). After a Plan Holiday pursuing the severe influence of exogenous shocks like hostilities with Pakistan and

Notes

unparalleled drought for two consecutive years 1965–66 and 1966–67, the country resumed the Fourth Plan in 1969 covering the era 1969–74.

Thereafter came the Fifth Five Year Plan (1974-79) which did not finish its five years due to the change of party in power. With the arriving into power of the Janta Party Government, the Sixth Five Year Plan was introduced in 1978 including the period 1978–83. Again, with the alteration in Government in 1980, the new Sixth Five Year Plan began, covering the era 1980–85 and pursued by the Seventh Plan (1985–90) which was finished by March-end, 1990.

The Eighth Five Year Plan, to start from April, 1990 covering the period 1990-95 could not be concluded and, again, we had two years of annual plans. After a gap of two years, the Eighth Plan was introduced in April 1992, covering the period 1992- 97 pursued by the Ninth Plan in April 1997 covering the period 1997–2002 followed by the Tenth Five Year Plan (2002–07) introduced in April 2002. The Eleventh Five Year Plan introduced in April 2007 covering the period 2007–2012 and at current India has arrived into Twelfth Five Year Plan (2012–2017).

11.1.1 Objectives of economic planning

1. ***Rapid Economic Growth:*** The fundamental target of economic planning in India has been to cause quick economic growth via development of agriculture, power, industry, transport & communication and all other sectors of the economy. The fundamental amount of economic growth of a country is the constant expansion year after year of actual natural income & actual per capita income. During the past 60 years the growth rate has been between 5 & 7% however the increase of income was not escorted by elimination of poverty.



Caution While evaluating the economic growth, one should also include improvement in quality of life consisting of life expectancy, infant mortality, literacy etc.

2. ***Increase in Employment:*** Unemployment is a very vital cause of poverty in India. Therefore objective vital goal of planning has been elimination of unemployment. This may be admitted that the government has failed in creating adequate number of jobs, so that unemployment to some degree is minimized.

3. ***Reduction of Inequality of Income:*** A very small category of persons in India are better off. There are rich landlords, industrialists, merchants, bankers & top officials. The huge majority of people are however very poor as their income is low. Although income inequalities have always been stated as one of the goals in all the plans however 5 year plans never had an obvious, positive strategy to redistribute wealth & income.

4. ***Establishment of Socialist Society:*** Ultimately, the Indian planners visualized the set-up of a socialist society in which everyone would have equivalent opportunities in the issue of education, occupation etc. Wealth would be distributed equivalently & there would be no focus of economic power in the hands of a few individuals & families. However the ground reality is that not much has been performed in this regard. Social justice refers to equitably distribute the wealth and income of the country among varied sections of the society. The Five-Year Plans have emphasized on four features of social justice. They are:

   (a) Application of democratic principles in the political structure of the country;

   (b) Set up of social and economic equity and elimination of regional disparity;

   (c) Placing an end to the process of centralization of economic power; and

   (d) Efforts to increase the condition of backward as well as depressed classes.

Hence the Five Year Plans have aimed to uplift the economic situation of socio-economically weaker sections such as scheduled caste and tribes via a number of target oriented programmes.

Notes

unparalleled drought for two consecutive years 1965–66 and 1966–67, the country resumed the Fourth Plan in 1969 covering the era 1969–74.

Thereafter came the Fifth Five Year Plan (1974-79) which did not finish its five years due to the change of party in power. With the arriving into power of the Janta Party Government, the Sixth Five Year Plan was introduced in 1978 including the period 1978–83. Again, with the alteration in Government in 1980, the new Sixth Five Year Plan began, covering the era 1980–85 and pursued by the Seventh Plan (1985–90) which was finished by March-end, 1990.

The Eighth Five Year Plan, to start from April, 1990 covering the period 1990-95 could not be concluded and, again, we had two years of annual plans. After a gap of two years, the Eighth Plan was introduced in April 1992, covering the period 1992- 97 pursued by the Ninth Plan in April 1997 covering the period 1997–2002 followed by the Tenth Five Year Plan (2002–07) introduced in April 2002. The Eleventh Five Year Plan introduced in April 2007 covering the period 2007–2012 and at current India has arrived into Twelfth Five Year Plan (2012–2017).

11.1.1 Objectives of economic planning

1. ***Rapid Economic Growth:*** The fundamental target of economic planning in India has been to cause quick economic growth via development of agriculture, power, industry, transport & communication and all other sectors of the economy. The fundamental amount of economic growth of a country is the constant expansion year after year of actual natural income & actual per capita income. During the past 60 years the growth rate has been between 5 & 7% however the increase of income was not escorted by elimination of poverty.



Caution While evaluating the economic growth, one should also include improvement in quality of life consisting of life expectancy, infant mortality, literacy etc.

2. ***Increase in Employment:*** Unemployment is a very vital cause of poverty in India. Therefore objective vital goal of planning has been elimination of unemployment. This may be admitted that the government has failed in creating adequate number of jobs, so that unemployment to some degree is minimized.

3. ***Reduction of Inequality of Income:*** A very small category of persons in India are better off. There are rich landlords, industrialists, merchants, bankers & top officials. The huge majority of people are however very poor as their income is low. Although income inequalities have always been stated as one of the goals in all the plans however 5 year plans never had an obvious, positive strategy to redistribute wealth & income.

4. ***Establishment of Socialist Society:*** Ultimately, the Indian planners visualized the set-up of a socialist society in which everyone would have equivalent opportunities in the issue of education, occupation etc. Wealth would be distributed equivalently & there would be no focus of economic power in the hands of a few individuals & families. However the ground reality is that not much has been performed in this regard. Social justice refers to equitably distribute the wealth and income of the country among varied sections of the society. The Five-Year Plans have emphasized on four features of social justice. They are:

   (a) Application of democratic principles in the political structure of the country;

   (b) Set up of social and economic equity and elimination of regional disparity;

   (c) Placing an end to the process of centralization of economic power; and

   (d) Efforts to increase the condition of backward as well as depressed classes.

Hence the Five Year Plans have aimed to uplift the economic situation of socio-economically weaker sections such as scheduled caste and tribes via a number of target oriented programmes.

Notes

11.1.2 Advantages of Economic Planning

There are several benefits of economic planning. Few of them are as below:

1. It is only via economic planning that a nation can hope to enhance the living standards of its people and to utilise its resources to best capacity;
2. Economic planning prevents uneven growth to national economy by choosing the most productive combination of projects and by judicious allotment of available resources;
3. It assists to correct and remove regional imbalances by focusing attention on the needs of backward regions;
4. It promotes co-ordination between the various sectors of the economy;
5. It is the only dependable way in which the state can attempt to remove economic disparities and set up an egalitarian society free of social and political tensions;
6. It offers the people with the best criterion by which to estimate the functioning of their governments which, in a planned economy, have to work for acquiring pre-determined targets and rates of growth.

Self Assessment

Fill in the blanks:

1. The first Five Year Plan was launched in .....
2. ..... is a very important cause of poverty in India.
3. ..... promotes co-ordination between the different sectors of the economy.



Caselet **Employment Generation and Poverty Reduction: can we do Better?**

The current back-log of unemployment at around 9 per cent, equivalent to 35 million persons, is too high, and every effort needs to be made to not only arrest the rising trend, but to actually reduce it during the Tenth Plan period itself. The Prime Minister's vision of creating 100 million employment opportunities over the next ten years is taken as the basis for targeting the creation of 50 million employment opportunities during the next five years, which is about 14 million higher than the target mandated in the Approach Paper on the basis of additions to labour force during the Plan period. If this target is achieved, the unemployment rate is likely to decline significantly to 5 per cent by the end of the Tenth Plan. Similarly, the mandated reductions in the poverty rate of 5 percentage points during the Tenth Plan and another 10 percentage points during the Eleventh Plan, as stipulated in the Approach Paper, will still leave more than 11 per cent of the population, or about 130 million people, below the poverty line in 2012. Every effort, therefore, needs to be made to reduce the poverty rate even faster. It is estimated that with a proper sectoral and regional focus, it may be possible to reduce the poverty rate by nearly 7 percentage points over the Tenth Plan period if the growth target of 8 per cent is achieved through the state-wise break down that has been drawn up in consultation with the States.

Source: http://planningcommission.nic.in/plans/planrel/fiveyr/10th/volume1/v1_ch1.pdf

Notes

11.2 Planning Commission of India

The Planning Commission was established in 1950, as an advisory body, the Prime Minister being its ex-officio Chairman. The Planning Commission is involved generally with economic planning and organizing the planning, but not executing it.

The main goal of Planning was described as initiating "a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life". Another goal of the commission was to steady the growth of population over a considerable period, to make sure that the economy, turns self-sufficient in years to come. Planning in India extracts its goals from Directive Principles of State Policy.

National Development Council: NDC assists in the execution of the Plan and assists in the resources of the country being combined together for consistent development of all areas. The National Development Council has members from the Chief Ministers of every State and also has members of the Planning Commission. It is chaired over by the Prime Minister of India as Chairman. It assists in working out common policies in the significant areas of the country's economy and hence makes sure balanced economic development of the country as a whole. The Five-year Plans are ultimately sanctioned by the National Development Council.

11.2.1 Functions of Planning Commission

Some of the vital areas of Planning Commission in India are as follows:

1. Evaluation of the capital, material, and human resources of the country, involving technical personnel, and framing of proposals for enhancing such of these resources as are discovered to be deficient.
2. Framing of Plans for the most efficient and balanced usage of the country's resources.
3. Definition of stages wherein the Plan should be conducted or a determination of priorities and allotment of resources for conclusion of each stage.
4. Determination of the nature of the machinery essential for the execution of the Plan in all its facets.
5. Appraisal from time to time of the progress acquired in the implementation of each stage of the Plan.
6. Public co-operation in national development.
7. Perspective planning.

Self Assessment

Fill in the blanks:

4. The Five-year Plans are finally approved by the .....
5. Planning in India derives its objectives from .....
6. The National Development Council has members from the Chief Ministers of all States as well as members of the .....

11.3 Planning Strategy in India

India after acquiring independence adopted the strategy of economic planning for its several economic objectives involving growth & development. Up to now 11 five-year plans & some annual plans have already been finished. This is the 12th five-year in which the country has entered.

Notes

During independence, Indian economy was confronting the issues of acute poverty, unemployment & the quality of life was very low. To solve these issues five-year planning was adopted. During all these years of planning, the country has attained some type of growth but the chief issues of inequality, poverty, & unemployment have not been removed. Therefore, what is vital is that the steps have to be taken which can make sure rapid growth of the economy & also the elimination of poverty, inequality & unemployment.

Strategy of economic planning and development, tackles with the long term policies framed to acquire the stated goals of the Five-Year Plans. It also decides the pattern of investment in the economy to acquire the national goals. In the Indian-context, the planners had to make an appropriate allocation limited resources among varied desired sector so as to decrease the volume of poverty and enhance the production and productivity of the economy.



Did u know? Who approves the five year plans in India? Working groups prepared by the regional programs, the balance of the Planning Commission prepares a brief memo that is placed in front of the cabinet and National Development Council.

The development strategy assumed during the initial days of economic planning had three chief components. These are as below:

1. To construct a strong base for long-term growth
2. To offer priority to industrialization; and
3. To lay focus on the growth of capital goods industries rather than consumer goods industries.
4. To allocate priority to Public sector.

(i) ***Sound Base for Long-term growth:*** There was no strategy of development as such in the First Five Year Plan, though it stressed on the agricultural sector involving irrigation and power. However the Second Five Year Plan stressed to develop a sound base for long term economic development. This long term growth is very much necessary to decrease the incidence of poverty in the rural sector. Prof. Mahalanobis, the actual architect of the Second Plan argued to acquire a long term growth through quick industrialization of the economy.

(ii) ***Top Priority to Industrialization:*** Indian economy was mainly an agricultural economy at the eve of independence with a semi- feudal structure. The fundamental goal was to alter this structure of the economy via quick industrialization. Therefore in the Second Plan the strategy was to attain growth through focusing on the industrial sector. These industries are needed not only to raise the volume of production as well as productivity but also to hire the thousands of unemployed youths of the country.

(iii) ***Development of Capital-goods industries:*** While promoting for industrialization, Prof. Mahalanobis favoured capital-goods industries with both forward and backward linkages to speed up the pace of economic development. Industries such as iron and steel, heavy machinery, coal, heavy chemicals had to be promoted for rapid industrialization. These industries would offer opportunities for additional industrialization by utilisation of their output and by-products. Expansion of these heavy basic industries would assist in promoting infrastructures such as transport, power, and communication.

(iv) ***Role of Public Sector:*** The investment strategy assigned significance to the public sector as the large amount needed for the purpose could not be organised by the private entrepreneurs of the country. Additionally, the goal of socialistic pattern of society can be acquired through this growth of public sector as well as the growth of monopoly power in the economy can be controlled. Therefore the planners attached significance to the public sector in the investment strategy of the Second Plan.

Notes

The strategy of development accepted during the second plan is called Nehruvian model of development. Such a model with minor changes continued to shape the development until the New Economic Policy declared in 1991.

Notes In the process of planning, special poverty alleviation programmes like integrated Rural Development Programme, Minimum Needs programme, National Rural Employment Programme were adopted to combat with rural poverty and uplift the weaker sections of the society.

Self Assessment

Fill in the blanks:

7. Indian economy was primarily an ..... economy at the eve of independence with a semi-feudal structure.
8. The ..... Five Year Plan stressed to create a sound base for long term economic development.
9. The strategy of development adopted during the second plan is known as ..... model of development.

11.4 India's Five Year Plans: All at a glance

For the smooth operation of any economy, planning plays a vital function. The Planning Commission has been assigned with the role of the creation, development and implementation of India's five year plans. India's five year plans are also managed by the Planning commission.

Recently, the 12th Five Year Plan is underway. An outline of India's Five Year Plans is provided in the table 11.1 below which focuses on different development policies and programmes of different Five Year Plans in India. It includes the Five Year Plans from First to Eleventh (1951–2012).

Notes Mokshagundam Vishweswarayya is known as the father of five year plans of India.

Table 11.1: Five Year Plans in India (1951-2012)

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

Contd...

Notes

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) Target Growth: 5.0% Actual Growth: 6.01%	Focus – rapid growth in food-grains production, increased employment opportunities and productivity within the framework 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.

Contd...

Notes

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) Target Growth: 5.0% Actual Growth: 6.01%	Focus – rapid growth in food-grains production, increased employment opportunities and productivity within the framework 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.

Contd...

Notes

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 at least 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 per cent.
	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 per cent 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 2016-17.

Source: http://www.upscguide.com/content/summary-five-year-plans-india

Self Assessment

Fill in the blanks:

10. The ..... plan was postponed by two years because of political uncertainty at the Centre.
11. India's five year plans are also supervised by the .....

Notes



Case Study **NDC approves 12th Five Year Plan**

India's apex policy making body NDC on Thursday approved the strategy to achieve average growth rate of 8 per cent during the 12th Five Year Plan (2012–17), generate 50 million new jobs and increase investments in infrastructure sector. "I am very happy that NDC (National Development Council) has approved the 12th Five Year Plan. We have marginally reduced the average annual growth rate to 8 per cent (from 8.2 per cent). We expect with the growth rate of 5.8 per cent this fiscal and little over 7 per cent next fiscal, and with extra effort in the remaining three more years we can reach 8 per cent," India's Planning Commission Deputy Chairman Montek Singh Ahluwalia said.

The voluminous document, containing detailed policy strategy for the 12th Plan, was approved at the full meeting of the NDC chaired by Indian Prime Minister Manmohan Singh. The document has pegged the aggregate Plan resources at ₹ 37.16 lakh crore during the five year period starting 2012-13.

Singh assured all Chief Ministers that Centre has taken note of the points raised by them, including those in the written speeches. "All these points will be carefully considered by the Planning Commission," he said, adding, the Plan is not a rigid blue print. "It is a broad 'directional' and 'aspirational' document, which must allow for modification on the basis of experience ... We must now devote all our energies to implementing the Plan," the Prime Minister said.

Moving away from previous practice of presenting single growth projection, the Planning Commission has come out with three different economic scenarios for 12th Five-Year Plan.

Questions:

1. What are the strategies approved by NDC in 12th Five Year Plan?
2. Discuss the goals to be achieved in this Five Year Plan.

Source: http://businesstoday.intoday.in/story/ndc-approves-12th-five-year-plan/1/191080.html

11.5 Summary

- Just after the attainment of independence, the Government of India set up the Planning Commission in 1950 to make an assessment of the material, capital and human resources of the country and to formulate a plan for its most effective and balanced utilization of the country's resources.
- The first Five Year Plan was launched in 1951.
- The basic aim of economic planning in India has been to bring about rapid economic growth through development of agriculture, industry, power, transport & communication and all other sectors of the economy.
- The Planning Commission was set up in 1950, as an advisory body, the Prime Minister being its ex-officio Chairman.
- The chief objective of Planning was defined as initiating "a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life".
- India after achieving independence adopted the strategy of economic planning for its various economic goals including growth & development.

Notes

- Strategy of economic planning and development, deals with the long term policies formulated to attain the stated objectives of the Five-Year Plans.
- India's five year plans are also supervised by the Planning commission.

11.6 Keywords

Economic Inequality: Economic inequality (also described as the gap between rich and poor, income inequality, wealth disparity, or wealth and income differences) is the difference between individuals or populations in the distribution of their assets, wealth, or income.

Economic Planning: Economic planning is the process policymakers undertake to ensure the generation, sharing, and consumption of wealth.

Plan: A Plan is a deliberate attempt to spell out how the resources of a country should be put to use.

Poverty Alleviation: Poverty alleviation refers to efforts aimed at reducing the magnitude of poverty.

Poverty: Poverty is the state of one who lacks a certain amount of material possessions or money.

Social Justice: Social justice means to equitably distribute the wealth and income of the country among different sections of the society.

11.7 Review Questions

1. What are objectives of economic planning in India?
2. What is the Strategy of economic planning in India?
3. Explain the advantages of economic planning in India.
4. Describe the objectives of Planning Commission.
5. Explain the Functions of Planning Commission.
6. What is the importance of five year plan in India?
7. What are the achievements and failure of economic planning in India?
8. Explain the importance of economic planning in India?
9. Which five year plan is going on in India?
10. Define the role of National Commission Council.

Answers: Self Assessment

1. 1951
2. Unemployment
3. Economic planning
4. National Development Council
5. Directive Principles of State Policy
6. Planning Commission
7. Agricultural
8. Second
9. Nehruvian
10. Eighth
11. Planning commission

Notes

11.8 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.slideshare.net/vaibhavmathankar/role-of-economic-planning-in-india

http://www.slideshare.net/PriyankaJadhav/indias-five-year-plan

http://gk-kerala.blogspot.in/2009/04/five-year-plans-in-india.html

Unit 12: Public Sector in India

Notes

CONTENTS

Objectives

Introduction

12.1 Evolution of Public Sector in India

12.2 Objectives of Public Sector in India

12.3 Role of Public Sector Undertaking (PSU) in Indian Economy

12.4 Causes for the Expansion of Public Enterprise

12.5 Performances of Public Enterprises

12.6 Limitations and shortcomings of Public Enterprises

12.7 Summary

12.8 Keywords

12.9 Review Questions

12.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the evolution of Public Sector in India
- Explain the role of Public Sector Undertaking (PSU) in Indian Economy
- Describe the objectives of Public Sector in India
- Discuss the causes for the expansion of Public Enterprises.
- Explain the performance and shortcomings of Public Enterprises

Introduction

Central and state Public Sector Undertakings (PSUs) play a main function in India's industrialization and economic development. Since independence, several socio-economic problems required to be dealt with in a planned and systematic manner. A mainly agrarian economy, a weak industrial base, low savings, insufficient investments and absence of industrial amenities called for state intervention to utilize the public sector as an instrument to drive the country's underlying potential towards self dependent economic growth. The macroeconomic goals of Central PSUs have been extracted from the Industrial Policy Resolutions and the Five Year Plans. State-level public sectors enterprises (state PSUs) were set up due to the increasing requirement for public utilities in the states. These PSUs functioned in public utilities like railways, post and telegraph ports, airports and power and contributed considerably towards infrastructure development in India. Since its commencement during the First Five Year Plan, several public sector undertakings conducted remarkably well in wealth creation for the country.

Several Central PSUs, especially the Maharatnas, are already global players corresponding the best global firms in their area of operations. One of the significant reasons for the excellent performances of Central PSUs during the current years was the empowerment of the boards.

Notes

12.1 Evolution of Public Sector in India

Prior to independence, there was nearly no 'Public Sector' in the Indian economy. The only cases worthy of mention were the Railways, the Port Trust, the Posts and Telegraphs, the Ordnance and the Aircraft factories and some Government managed undertakings such as the Government salt factories, quinine factories etc. After independence and with the arrival of planning, India chose for the dominance of the public sector, firmly thinking that political independence without economic self-dependence was not good for the country. The enactment of Industrial Policy Resolution of 1956 and embracing of the socialist pattern of the society resulted in an intentional enlargement of our public sector. It was thought that a dominant public sector would decrease the inequality of income and wealth, and advance the usual prosperity of the nation. The planners also appeared to believe that by positioning the management and workers in public enterprises in a post of responsibility and trust, they would be so instilled with a sense of the public good that their actions as well as aspirations would naturally mirror what was best for the country.



Did u know? The Industrial Policy Resolution 1956 classified industries into three categories with respect to the role played by the State -

The first category (Schedule A) included industries whose future development would be the exclusive responsibility of the State.

- The second (Schedule B) category included Enterprises whose initiatives of development would principally be driven by the State but private participation would also be allowed to supplement the efforts of the State.
- And, the third category included the remaining industries, which were left to the private sector.

Self Assessment

Fill in the blanks:

1. The passage of Industrial Policy Resolution of 1956 and adoption of the ..... pattern of the society led to a deliberate enlargement of our public sector.
2. After independence and with the advent of planning, India opted for the dominance of the public sector, firmly believing that political independence without ..... was not good for the country.



Caselet **Corporate Social Responsibility of Public Sector Undertakings**

Social Obligations of Central Public Enterprises

PSUs serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

The Government has issued the guidelines on Corporate Social Responsibility for Central Public Sector Enterprises (CPSEs) following the Committee on Public Undertakings (1993-94) recommended a number of measures in its 24th Report on 'Social Responsibilities and Public Accountability of Public Undertakings'.

Notes

Although the Government believes in making PSEs growth oriented and technically dynamic, its policy is to give greater powers to the boards so that PSEs could function professionally. While the focus is on generating surpluses for self-sustaining growth, the PSEs generally undertake certain amount of non-commercial responsibilities, in furtherance of their commercial objectives. All PSEs cannot be treated on an equal footing for undertaking various types of social activities. It is for the individual PSE to identify and implement social responsibilities keeping in view its financial ability to sustain such activities, operating environment and provisions in its MOA/Statute.

It is likely that some social responsibilities may be assigned to PSEs through the issuance of Presidential Directives/guidelines by the concerned administrative Ministries/ Departments. While implementation of Presidential Directives is mandatory; the guidelines are also generally to be followed except when the boards of directors of PSEs decide not to adopt them for reasons to be recorded in writing. It is desirable that boards of PSEs have full flexibility in identification and implementation of social responsibilities because as per the Articles of Association they enjoy full autonomy in this regard. PSEs are free to avail the help of State Governments, District Administration and peoples' representatives, wherever necessary.

Source: http://india.gov.in/spotlight/public-sector-undertakings-india

12.2 Objectives of Public Sector in India

The chief objectives for establishing the Public Sector Enterprises as mentioned in the Industrial Policy Resolution of 1956 were:

- To assist in the quick economic growth and industrialization of the country and develop the essential infrastructure for economic development;
- To endorse redistribution of income and wealth;
- To secure return on investment and hence produce resources for development;
- To endorse balanced regional development;
- To develop employment opportunities;
- To help the development of small-scale and ancillary industries; and
- To promote import substitutions, save as well as earn foreign exchange for the economy.

In tune with the prevalent belief at that time, the 2nd Five Year Plan mentioned very evidently that the adoption of socialist pattern of society as the national goal, as well as the requirement for planned and rapid development, need that all industries of basic and strategic significance, or in the nature of public utility services, should be in the public sector. Other industries, which are necessary and need investment on a scale, which only the state, in the current situations, could offer, have also to be in the public sector. The state has, hence, to presume direct responsibility for the future development of industries over an extensive region.

The Second Plan further stressed that the public sector has to spread rapidly. It has not only to commence developments which the private sector is either reluctant or unable to undertake, it has to play the leading role in shaping the whole pattern of investment in the economy, whether it makes the investments straightaway or whether these are made by the private sector. The private sector has to play its portion within the framework of the comprehensive plan received by the community.



Example: Public enterprises consist of nationalised private sector enterprises, such as, banks, Life Insurance Corporation of India and the new enterprises set up by the government such as Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC) etc.

Notes

Self Assessment

Fill in the blanks:

3. The objective of public sector enterprises is to assist the development of small-scale and ..... industries.

4. The ..... Plan further emphasized that the public sector has to expand rapidly.

12.3 Role of Public Sector Undertaking (PSU) in Indian Economy

Public Sector Undertakings (PSUs) have placed a strong foundation for the industrial development of the country. The public sector is less worried about making profits. Therefore, they play a main role in nation building activities, which take the economy in the correct direction.

PSUs offer leverage to the Government (their controlling shareholder) to interfere in the economy directly or indirectly to acquire the desired socio-economic goals and maximize long-term goals.

As agriculture is the spine of Indian economy, Public Sector Banks (PSBs) play an important role in pushing the agricultural economy on to the advancing pathway and assisting develop rural India. Additionally, PSUs play a considerable role in the rural development by offering fundamental infrastructural services to citizens.

The public sector has been playing an important role in the economic development of the country. Public sector is regarded a powerful engine of economic development and a vital instrument of self-reliance. The chief contributions of public enterprises to the country's economy may be explained as follows:

1. ***Filling the Gaps in Capital Goods:*** At the time of independence, there prevailed serious gaps in the industrial structure of the country, especially in the areas of heavy industries like steel, exploration and refining of oil, defence equipment, heavy Electrical and equipment, heavy machine tools, chemicals and fertilizers, etc. Public sector has assisted to fill up these gaps. The basic infrastructure needed for rapid industrialisation has been constructed, via the production of strategic capital goods. In this manner, the public sector has substantially widened the industrial base of the country.

2. ***Employment:*** Public sector has developed millions of jobs to handle the unemployment issue in the country. Public sector explains for nearly two-thirds of the overall employment in the organized industrial sector in India. By taking over several sick units, the public sector has saved the employment of millions. Public sector has also offered a lot towards the enhancement of working and living situations of workers by acting as a model employer.

3. ***Balanced Regional Development:*** Public sector undertakings have situated their plants in backward and untrodden portions of the county. These regions lacked basic industrial and civic amenities such as electricity, township, water supply and manpower. Public enterprises have created these facilities hence bringing about whole transformation in the socio-economic life of the people in these areas.

   Example: Steel plants of Bhilai, Rourkela and Durgapur; fertilizer factory at Sindri, are few examples of the development of backward regions by the public sector.

4. ***Contribution to Public Exchequer:*** Aside from generation of internal resources as well as payment of dividend, public enterprises have been making considerable contribution to the Government exchequer via payment of excise duty, corporate taxes, custom duty etc. In this manner, they assist in mobilizing funds for financing the requirements for the planned development of the country. In current years, the total contribution from the public enterprises has risen considerably; between the periods 2002-03 to 2004-05 the contribution rose by ₹ 81,438 crores on the average.

Notes

5. *Export Promotion and Foreign Exchange Earnings:* Few public enterprises have conducted much to promote India's export. The State Trading Corporation (STC), Hindustan Steel Ltd., the Bharat Electronics Ltd., the Minerals and Metals Trading Corporation (MMTC), the Hindustan Machine Tools, etc., have performed very well in export promotion. The foreign exchange earnings of the public sector enterprises have been increasing from ₹ 35 crores in 1965–66 to ₹ 42,264 crores in 2004–05.

6. *Import Substitution:* Few public sector enterprises were opened particularly to produce goods which were formerly imported and hence to protect foreign exchange. The Hindustan Antibiotics Ltd., the Oil and Natural Gas Commission (ONGC), the Indian Drugs and Pharmaceuticals Ltd. (IDPL), the Indian Oil Corporation Ltd., the Bharat Electronics Ltd., etc., have saved foreign exchange by the approach of import substitution.

7. *Research and Development:* As majority of the public enterprises are involved in high technology and heavy industries, they have conducted research and development programmes in a big manner. Public sector has laid strong and extensive base for self-reliance in the sphere of technical know-how, maintenance as well as repair of sophisticated industrial plants, machinery and equipment in the country. By way of the development of technological skill, public enterprises have decreased reliance on foreign knowhow. With the assistance of the technological capability, public sector undertakings have successfully contested in the international market.

8. *Community Development:* Various public sector undertakings have developed townships to offer all the civic facilities to their employees. These townships comprise of houses, etc. Public enterprises have built roads and other infrastructural facility to connect these townships to other portions of the country. These townships have been very valuable in enhancing community life.

9. *Social Justice:* Public enterprises have led towards the accomplishment of constitutional objectives. They have been valuable in decreasing the concentration of economic power in private hands, in restraining anti-social monopolies, in speeding up public control over the national economy and in leading to a socialistic pattern of society.

In addition to the foregoing, the public sector has played a crucial role in the acquisition of constitutional goals such as reducing concentration of economic power in private hands, developing a socialistic pattern of society, increasing public control over the national economy, etc. With all its connections the public sector has made strong contributions to national self-reliance.

Self Assessment

Fill in the blanks:

1. PSUs provide leverage to the Government to intervene in the economy directly or indirectly to achieve the desired ..... objectives and maximize long-term goals.
2. ..... play a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India.
3. Several public sector undertakings have developed townships to provide all the ..... to their employees.

12.4 Causes for the Expansion of Public Enterprise

During independence, India was backward and underdeveloped - fundamentally an agrarian economy with weak industrial base, high rate of unemployment, low level of savings and investment and near lack of infrastructural facilities. Indian economy required a big push. This

Notes

5. *Export Promotion and Foreign Exchange Earnings:* Few public enterprises have conducted much to promote India's export. The State Trading Corporation (STC), Hindustan Steel Ltd., the Bharat Electronics Ltd., the Minerals and Metals Trading Corporation (MMTC), the Hindustan Machine Tools, etc., have performed very well in export promotion. The foreign exchange earnings of the public sector enterprises have been increasing from ₹ 35 crores in 1965–66 to ₹ 42,264 crores in 2004–05.

6. *Import Substitution:* Few public sector enterprises were opened particularly to produce goods which were formerly imported and hence to protect foreign exchange. The Hindustan Antibiotics Ltd., the Oil and Natural Gas Commission (ONGC), the Indian Drugs and Pharmaceuticals Ltd. (IDPL), the Indian Oil Corporation Ltd., the Bharat Electronics Ltd., etc., have saved foreign exchange by the approach of import substitution.

7. *Research and Development:* As majority of the public enterprises are involved in high technology and heavy industries, they have conducted research and development programmes in a big manner. Public sector has laid strong and extensive base for self-reliance in the sphere of technical know-how, maintenance as well as repair of sophisticated industrial plants, machinery and equipment in the country. By way of the development of technological skill, public enterprises have decreased reliance on foreign knowhow. With the assistance of the technological capability, public sector undertakings have successfully contested in the international market.

8. *Community Development:* Various public sector undertakings have developed townships to offer all the civic facilities to their employees. These townships comprise of houses, etc. Public enterprises have built roads and other infrastructural facility to connect these townships to other portions of the country. These townships have been very valuable in enhancing community life.

9. *Social Justice:* Public enterprises have led towards the accomplishment of constitutional objectives. They have been valuable in decreasing the concentration of economic power in private hands, in restraining anti-social monopolies, in speeding up public control over the national economy and in leading to a socialistic pattern of society.

In addition to the foregoing, the public sector has played a crucial role in the acquisition of constitutional goals such as reducing concentration of economic power in private hands, developing a socialistic pattern of society, increasing public control over the national economy, etc. With all its connections the public sector has made strong contributions to national self-reliance.

Self Assessment

Fill in the blanks:

1. PSUs provide leverage to the Government to intervene in the economy directly or indirectly to achieve the desired ..... objectives and maximize long-term goals.
2. ..... play a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India.
3. Several public sector undertakings have developed townships to provide all the ..... to their employees.

12.4 Causes for the Expansion of Public Enterprise

During independence, India was backward and underdeveloped - fundamentally an agrarian economy with weak industrial base, high rate of unemployment, low level of savings and investment and near lack of infrastructural facilities. Indian economy required a big push. This

Notes

push could not come from the private sector due to the absence of funds and their incapability to take risk with large long-gestation investments. As such, government intervention via public sector was essential for self-dependent economic growth, to diversify the economy and to get over economic and social backwardness.

The rationale or reasons for the expansion of public sector enterprises in India are explained as follows:

1. *Rate of Economic Development and Public Enterprises:* The justification for public enterprises in India was on the basis of the fact that the targeted rate of economic growth planned by the government was much greater than could be acquired by the private sector alone. In other words, the public sector was necessary to realize the target of high growth rate intentionally fixed by the government.

2. *Pattern of Resource Allocation and Public Enterprises:* Another motive for the growth of the public sector lies in the pattern of resources allocation determined upon under the plans. In the Second Plan the focus was shifted to industries and mining, chiefly fundamental capital goods industries to be developed under the sponsorship of the public sector. Hence more resources for industrialization were channelled via the public sector.

3. *Removal of Regional Disparities through Public Enterprises:* Another vital reason for the expansion of the public sector was the requirement for balanced development in varied portions of the country and to observe that there were no severe regional disparities. Public enterprises were established in those areas which were underdeveloped and where local resources were not sufficient.

   Example: Good examples are the setting up of the three steel plants of Bhillai, Rourkela and Durgapur and the Neyveli Project in Madras which were meant to help industrialise the regions surrounding the projects.

4. *Sources of Funds for Economic Development:* Originally, state was a vital source of funds for development. The excess of government enterprises could be re-invested in the same industries or utilised for the setup and expansion of other industries. Profits of public sector industries can be directly utilised for capital formation which is essential for the quick development of the country.

5. *Socialistic Pattern of Society:* The socialistic pattern of society envisioned in the Constitution calls for growth of public sector. For one thing, production will have to be centrally planned with relation to the kind of goods to be generated, the volume of output as well as the timing of their production. Also, one of the goals of the directive principles of the Indian Constitution is to lead to reduction of the inequalities of income and wealth and to set up an egalitarian society. The Five Year Plans have taken this up as a main goal of planning. The public enterprises were utilised as main instruments for the decrease of inequalities of income and to lead to a more equitable distribution of income in various ways.

6. *Limitations and Abuses of the Private Sector:* The behaviour and attitude of the private sector itself was a vital factor accountable for the expansion of the public sector in the country. In many instances the private sector could not take initiatives due to the absence of funds and their inability to take risk with big long-gestation investments. In numerous cases, the government was compelled to take over a private sector industry or industrial units either in the interest of workers or to prevent extreme exploitation of consumers. Very frequently the private sector did not operate as it should and did not conduct its social responsibilities. Accordingly, the government was compelled to take over or nationalize the private sector units.

Notes



Notes B.H. Dholakia advocates the adoption of the total factor productivity criterion to judge the efficiency of public sector enterprises.

The total factor productivity criterion inspects the contribution made by the enterprise to the country's net national product with respect to rent, wages and salaries, interest and profit.

Embracing this criterion Dholakia finds that over the duration of 1967-68 to 1975- 76, the total economic efficiency of the public enterprises enhanced at a rate of 2.44 percentage points per annum while that of private sector enterprises could rise by only 0.59 percentage points per annum.

3. ***Share in Capital Formation:*** Public sector has played a vital role in capital formation. The share of the public sector in the overall gross fixed capital formation in the country was 41% during the first and second Plans and 49% during the third Plan.

It decreased to 42% in the fourth Plan and 40% in the fifth Plan. But it again increased to 47% in the sixth Plan and 48% in the seventh Plan.

Regarding this, capital formation in the public sector is very important for a developing economy such as India.



Caution It should be pointed out that investment in the private sector producing luxury goods should be evaluated lower than the similar type of investment in the public sector which is engaged in the production of basic goods and infrastructural services to the economy.

4. ***Public Sector Enterprises and Employment:*** In India, the organised sector is very small as it offers10% of the overall employment in the economy and nearly 90% is offered by the unorganized sector.

The workers hired in the public sector comprised of only 7% of the overall labour force in the country and those hired in the organized private sector was 3%. The number of persons hired in the public sector enterprises ranked at 23.05 lakhs as on March 31, 1991.

The public sector is a model employer which offers the workers better wages and other amenities in comparison to the private sector. The public sector enterprises have also devoted a large amount for the development of townships around industries.

5. ***Public Sector and Foreign Exchange Earnings:*** Foreign exchange earnings of public enterprises have been considerable and they have also assisted in saving foreign exchange via their attempts at import substitution. Capital goods and industrial machinery which were imported nearly three decades ago are at present being produced in the country itself.

This has saved valuable foreign exchange. Public sector export earnings increased from ₹ 2143 crore in 1980- 81 to ₹ 6366 crore in 1989–90. Apart from real exports by manufacturing units foreign exchange is also earned from services delivered by air corporations and shipping companies etc.

6. ***Financial Performance:*** The worth of sales of public sector enterprises is a pointer of their contribution to the flow of goods and services in the economy. Public enterprises lead to national exchequer in the shape of interest on income tax, government loans, and excise duty.

Notes

Self Assessment

Fill in the blanks:

10 The public sector accounts for ..... of the total income of the economy.

11 Public sector has played an important role in capital .....

12 The public sector is a ..... employer which provides the workers better wages and other facilities compared to the private sector.

12.6 Limitations and shortcomings of Public Enterprises

In spite of their impressive role, Public enterprises in India undergo various issues and shortcomings. Some of these are explained below:

1. *Poor Project Planning:* Investment decisions in various public enterprises are not based upon suitable assessment of demand and supply, cost benefit analysis and technical feasibility. Absence of a precise criterion and flaws in planning have led to undue delays and inflated costs in the commissioning of projects. Majority projects in the public sector have not been completed as per the time schedule.

2. *Over-capitalization:* Because of inefficient financial planning, absence of effective financial control and easy accessibility of money from the government, various public enterprises experience over-capitalization The Administrative Reforms Commission discovered that Hindustan Aeronautics, Heavy Engineering Corporation and Indian Drugs and Pharmaceuticals Ltd were over-capitalized. Such over-capitalization led to great capital-output ratio and depletion of scare capital resources.

3. *Excessive Overheads:* Public enterprises experience heavy expenditure on social overheads such as townships, schools, hospitals, etc. In most instances such establishment expenditure added up to 10 per cent of the total project cost. Recurring expenditure is needed for the maintenance of such overhead and welfare amenities. Hindustan Steel alone experienced an outlay of ₹ 78.2 crore on townships. These amenities may be desirable but the expenditure on them should not be irrationally high.

4. *Overstaffing:* Manpower planning is not effective because of which various public enterprises such as Bhilai Steel have excess manpower. Recruitment is not on the basis of sound labour projections. On the contrary, posts of Chief Executives stay unfilled for years in spite of the availability of needed personnel.

5. *Under-utilisation of Capacity:* One serious issue of the public sector has been low usage of installed capacity. In the lack of definite targets of production, efficient production planning and control and proper evaluation of future requirements many undertakings have failed to make full use of their fixed assets. There is substantial idle capacity. In some instances productivity is low due to poor materials management or ineffective inventory control.

6. *Lack of a Proper Price Policy:* There is no definite price policy for public enterprises as well as the Government has not laid down rules for the rate of return to be earned by various undertakings. Public enterprises are anticipated to acquire various socio-economic goals and in the lack of a clear directive, pricing decisions are not always founded on rational analysis. Apart from dogmatic price policy, there is absence of quality consciousness, cost-consciousness, and effective control on waste and efficiency.

7. *Inefficient Management:* The management of public enterprises in our country leaves a great deal to be desired. Managerial efficiency as well as effectiveness has been less because of too much centralisation, inept management, uninspiring leadership, frequent transfers

Notes

and lack of personal stake. Civil servants who are deputed to supervise the enterprises frequent lack proper training and utilise bureaucratic practices. Political interference in every day affairs, rigid bureaucratic control and ineffective delegation of authority obstruct initiative, flexibility and rapid decisions. Motivations as well as morale of both executives and workers are low because of the lack of suitable incentives.

8. ***Unsatisfactory industrial Relations:*** In various public enterprises relations between management and labour are far from pleasant. There has been severe and frequent labour trouble in Bharat Heavy Electricals, Bhopal, Durgapur steel Plant, and in Bangalore-based undertakings. Millions of man days as well as output worth crores of rupees have been lost because of strikes and gheraos. Wage disparities have been the chief reason of labour trouble in the public sector. The percentage rise in the per cent emoluments of public sector employees had been greater than the percentage rise in consumer price index.

9. ***Lack of Coordination:*** Several public enterprises are reliant on one another as the output of one enterprise is the input of another. For example, the effective functioning of power and steel plants relies on the production and transportation of coal which in turn is reliant upon supplies of heavy equipment machinery. In spite of such interdependence, materials management and research has not been attained. Coordination in the production programmes of varied enterprises at several stages would assist to decrease excess stocks and shortages of important inputs.



Caution Since the Govt. provides capital, they are dependent on it for policy decisions and suffer from red-tapism. Any delay in decisions may cause the enterprise sufficient losses.

Self Assessment

Fill in the blanks:

13. Various public enterprises are dependent on one another as the ..... of one enterprise is the input of another.

14. Lack of a precise criterion and flaws in planning have caused undue delays and ..... costs in the commissioning of projects.



Case Study **Public Sector Enterprises: Temples of Modern India**

In 1954, Pandit Jawaharlal Nehru had described public sector enterprises (PSEs) as 'temples of modern India'. PSEs were conceived as instruments to bring socio-economic transformation of the country. Those were the mainstay for self-reliant growth. Some important objectives were to create infrastructure, absorb technology, encourage innovation, generate employment and achieve certain social objectives. Private capital was inadequate. Public sector was dominating the corporate sectors. Talents got attracted toward PSEs. They emerged as model employers. It was expected that PSEs would generate surplus after some years of operation. However, except a few PSEs, most of them could not provide reasonable return even after few decades of operation. Later the government had pronounced that the core objective function of PSEs, which are engaged in commercial activities, is to 'create shareholder value' or in simple terms to 'make money', albeit without taking recourse to unfair means. Most of PSEs compete with private sector companies. Therefore, they adopt private sector management practices, such as appointing employees on contract, to the maximum extent possible. They also use the same performance metrics, which are being used to measure the performance of private

Contd...

Notes

sector enterprises. The Department of Public Enterprises (DPE) issues PE Survey every year covering the performance of central PSEs. The latest available on its website is the survey for the year 2010–11. During the five-year period (2006–07 to 2010–11), the turnover of CPSEs has increased from ₹ 9,64,890 crores to ₹ 14,73,319 crores, which is an increase of around 53 per cent. On the other hand, the number of employees (excluding casual and contract employees) has gone down from 16.14 lakhs to 14.44 lakhs, which is a decrease of around 11 per cent. The decrease might have resulted from the increase in the ratio of 'the number of casual and contracted employees' to the number of total employees and marginal increase in turnover per employee. There is a chapter on performance overview. It does not provide information on CSR and sustainability initiatives or contribution in social development. These show that the government expects PSEs to focus on the objective of generating surplus.

In spite of this radical change in the objective of PSEs, they are often used as instruments to implement public policies. For example, the government, sometimes, prompt the investment and lending policies/decisions by public financial institutions, it often subtly guide the dividend policy to match its financial requirements, and it administers pricing of some petroleum products being marketed by PSEs on socio-economic considerations.

India is now ushering into another phase of socio-economic transformation. No one argues against the CSR and sustainable development. The government has taken various initiatives to persuade companies to take up the responsibility to make the living of this and future generations better. It has issued various guidelines, including the guidelines on the social, environmental and economic responsibilities of companies. The guidelines are voluntary in nature. Companies are expected to implement them in their true spirit. Unfortunately, companies, except those that are highly respected and successful, are not very enthusiastic in implementing them. In this situation the government should use PSEs as instruments to provide thrust to the government initiatives.

The DPE has included CSR and sustainability in the parameters being used to evaluate the performance of PSEs. In the Memorandum of Understanding (MOU) it has assigned 5 per cent weight to CSR and 5 per cent weight to sustainable development initiatives. It has issued CSR guidelines for CPSEs, which requires PSEs to spend a specified per cent of their profits, which varies from 0.5 per cent to 5 per cent depending on net profit, in CSR. Higher the profit, lower is the spending in terms of the proportion of profit. The board and the concerned administrative ministry are required to monitor the implementation of guidelines.

These initiatives are inadequate. Weights in the MOU for CSR and sustainable development initiatives should be increased. Moreover, weight should be assigned for effective implementation of the government guidelines. The government should make sustainable reporting (global reporting initiative) mandatory for PSEs. These will create a culture of CSR and sustainable development initiatives within PSEs. It will also enable the government to showcase successful CSR projects and performance of PSEs in terms of CSR and sustainable development initiatives. It will enhance the industry learning on identification and implementation of social projects and will create a general awareness of corporate responsibilities.

Let us make PSEs temples of modern India, where companies join hands with the government to accelerate socio-economic changes for the welfare of all, including those who are underprivileged.

Questions:

1. Public Sector Enterprises are described as Temples of Modern India. Comment upon it.
2. What are the functions of Public Sector Enterprises?

Source: http://www.business-standard.com/article/economy-policy/asish-k-bhattacharyya-public-sector-enterprises-temples-of-modern-india-112062500011_1.html

Notes

12.7 Summary

- Before independence, there was almost no 'Public Sector' in the Indian economy.
- After independence and with the advent of planning, India opted for the dominance of the public sector, firmly believing that political independence without economic self-reliance was not good for the country.
- There are many objectives for setting up the Public Sector Enterprises as stated in the Industrial Policy Resolution of 1956.
- The Second Plan emphasized that the public sector has to expand rapidly and the private sector has to play its part within the framework of the comprehensive plan accepted by the community.
- Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country.
- The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction.
- Public sector is considered a powerful engine of economic development and an important instrument of self-reliance.
- Expansion of the public sector was aimed at the fulfilment of our national goals, viz., the removal of poverty, the attainment of self-reliance, reduction in inequalities of income, expansion of employment opportunities and acceleration of the pace of agricultural and industrial development.
- Public enterprises should be evaluated in terms of social cost-benefits rather than commercial profitability alone.
- Despite their impressive role, Public enterprises in India suffer from several problems and shortcomings like poor project planning, over-capitalization, inefficient management, overstaffing and under-utilisation of capacity and many more.

12.8 Keywords

Bureaucratic Control: Control of an organization and the individuals that make up the organization through systems of standardized rules, methods, and verification procedures. Bureaucratic control is used to ensure efficient operation of large organizations, where face-to-face communication is not possible or practical and informal methods of enforcing compliance may not be sufficient.

Capitalization: The sum of a corporation's long-term debt, stock and retained earnings. also called invested capital.

Dogmatic Price Policy: Price policy characterized by an authoritative, arrogant assertion of unproved or unprovable principles is called Dogmatic price policy.

Effective Control: A situation where someone owns a large number of shares in a company, but less than 50 per cent, and so in effect controls the company because no other single shareholder can outvote him or her.

Exchequer: Exchequer is defined as a royal or national treasury or is defined as the account into which tax funds and other public funds are deposited.

Overstaffing: Overstaffing means to supply with too many employees.

Public Sector Enterprise: A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximise social welfare and uphold the public interest.

Wage Disparities: Wage disparities means *inequality* or difference in the pay or the salary.

12.9 Review Questions

Notes

1. Define Public Sector Undertaking.
2. Describe the evolution of Public Sector in India.
3. Explain the role of Public Sector Undertakings in Indian Economy.
4. Discuss the objectives of Public Sector Undertakings.
5. Public enterprises have contributed towards achievement of social justice. How?
6. What are the various causes for the expansion of Public Enterprises?
7. How should the Public enterprises be evaluated?
8. Describe in detail the performances of Public Enterprises.
9. Discuss the shortcomings and limitations of Public Enterprises.
10. How unsatisfactory industrial relations a disadvantage?

Answers: Self Assessment

1. socialist
2. economic self-reliance
3. ancillary
4. Second
5. socio-economic
6. Public Sector Banks (PSBs)
7. civic amenities
8. Constitution
9. Inequalities
10. one-fourth
11. formation.
12. Model
13. Output
14. inflated

12.10 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://www.publishyourarticles.net/knowledge-hub/company-accounts/what-is-the-role-of-public-sector-enterprises-in-india.html

http://my.safaribooksonline.com/book/business/9788131730690/1-introduction-to-business-studies/ch01_sd1_6_xhtml

http://www.archive.india.gov.in/spotlight/spotlight_archive.php?id=78

http://www.kcgjournal.org/Commerce%20and%20Management/Issue%204/Pravin.html

Notes

Unit 13: Private Sector in India

CONTENTS

Objectives

Introduction

13.1 Evolution of Private sector in India

13.2 The Role of The Private Sector in India

13.3 Importance of Private Sector in Indian Economy

13.4 Shortcomings of the Private Sector Enterprises

13.5 Summary

13.6 Keywords

13.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the evolution of private sector in India.
- Explain the importance and objective of private sector in India
- Discuss the role of private sector enterprises in Indian Economy
- Describe the shortcomings of private sector enterprises.

Introduction

The private sector of Indian economy is the last few years have defined vital development in terms of investment and with respect to its share in the gross domestic product. The chief regions in private sector of Indian economy that have exceeded the public sector are transport, financial services etc. Indian government has regarded plans to take concrete steps to bring affect poverty alleviation via the development of more job opportunities in the private sector of Indian economy, rise in the number of financial institutions in the private sector, to offer loans for purchase of education, houses, equipment, and for infrastructural development also. The private sector of Indian economy is currently showing its inclination to serve the society via women empowerment programs, assisting the people influenced by natural calamities, extending assistance to the street children and so forth. The government of India is being helped by a number of agencies to recognise the areas that are restricting the entry of the private sector of Indian economy in the field of infrastructural development, such as regulatory policies, legal procedures etc.

The most interesting fact related to the private sector of India economy is that though the total pace of its development is relatively slower than the public sector, still the investment of private sector in the current past, that is in the first quarter of 1990 recorded roughly 56% which rose to almost 71% in the next quarter, accounting for an increase of 15 %. Specific steps taken by the Indian government are serving as the stepping stone of the private sector's persistent journey to success, involve industrial delicensing, devaluation that was executed earlier. The private sector of Indian economy is also unfavourably influenced by the huge number of permits and tremendous time needed for the processing of documents to start a firm, but the

Notes

central government has decided to ban MRTP Act and include a Competition Commission of India to bring the public sector as well as the private sector at the same platform.

The contribution of the private sector of Indian economy is wished by the government of India for infrastructural development involving particular sectors such as power, development of highways and so forth. The contribution of public sector in such sectors has been arrested because of the shift of the attention of the Indian government to problems such as population increase, industrial growth.

13.1 Evolution of Private sector in India

After Independence, India was grappling with serious socio-economic issues, like inequalities in income and low levels of employment, regional imbalances in economic development and absence of trained manpower, inadequate investments and infrastructure facilities, weak industrial base, etc.



Notes The roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs.

Originally, the public sector was restricted to core and strategic industries. The second phase observed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into latest areas like manufacturing consultancy, consumer goods, contracting and transportation etc.

The Industrial Policy Resolution 1948 defined the importance of the economy and its constant growth in production as well as equitable distribution. In this process, the policy envisioned active involvement of the State in creation of industries.

The Industrial Policy Resolution 1956 grouped industries into three categories with relation to the role played by the State -

- The first category (Schedule A) involved industries whose future development would be the special responsibility of the State.
- The second (Schedule B) category involved Enterprises whose initiatives of development would mainly be propelled by the State but private participation would also be permitted to supplement the attempts of the State.
- And, the third category involved the rest of the industries, which were left to the private sector.

In 1969, the government nationalized 14 main banks.

The Industrial Licensing Policy 1970 placed specific restrictions on undertakings belonging to large industrial houses, outlined on the basis of assets surpassing ₹ 350 million.

In 1973, the definition of big industrial houses was embraced in conformity with that of the Monopolies and Restrictive Trade Practices Act (MRTP) 1969- External website that starts in a new window and involved companies whose assets surpassed ₹ 200 million. The Statement on Industrial Policy in July 1991 was also important. It brought in basic changes in the MRTP Act as well. The statement reviewed the priority of the public sector.

Notes

Self Assessment

Fill in the blanks:

1. The ..... category included industries whose future development would be the exclusive responsibility of the State.
2. The Schedule B category included ..... whose initiatives of development would principally be driven by the State but private participation would also be allowed to supplement the efforts of the State.



Caselet **Private Sector to Lead India's Economic Revival: Crisil News**

Private sector accounts for three-fourths of India's gross domestic product (GDP) and the country's economic turnaround depends on reviving private consumption and investment, Crisil Research has said.

The government can act as a facilitator in boosting private investment by pursuing the next level of economic reforms and removing policy bottlenecks, according to Crisil.

This is because, unlike during the 2008 crisis, the public sector in the country is not in a position to provide the necessary impetus for growth due to the government's own fiscal constraints.

While the fiscal deficit has made increased spending difficult for the government, public sector firms are also facing constraints in pushing investments in difficult times.

"In the two decades since 1990, public sector GDP growth remained stagnant at 6 per cent, whereas private sector GDP growth went up to 7.7 per cent in the 2000s from 5.7 per cent in the previous decade. The private sector's performance during the high growth phase of the economy from 2004-05 to 2007-08 was even more impressive, as it logged 9.7 per cent GDP growth per year. Private corporate investments, too, had surged to 17.3 per cent of GDP from 10.3 per cent of GDP during this period," Crisil Research said in its recently released report titled "Why is it critical to revive the private sector?"

The global financial crisis in 2008 hit private sector investment through a drying up of investible funds. Investments by the private corporate sector slumped to 11.3 per cent of GDP in the crisis year 2008-09 from 17.3 per cent in the preceding year. If India came through largely unscathed from the effects of the financial crisis, it was mainly due to the impetus from the public sector, the report said.

Source: http://www.domain-b.com/economy/general/20120717_private_sector.html

13.2 The Role of The Private Sector in India

In India, the state demarcated the regions for the public and private sector in the Industrial Policy of 1956. The government has sought to convert itself from being a provider of "public" services to a purchaser in the best interests of users. This latest paradigm of public-private partnership (PPP) has assisted to encourage private investment. Charles Darwin's theory of survival of the fittest is as appropriate to the corporate world as it is to the animal kingdom. Only such companies and brands that can survive to the competition are able to overpower the marketplace. In this setting, it is vital to see the purposes for which the private sector is a vital portion of the Indian economy.

1. **The Dominance Factor:** In spite of the quick progress of the public sector in the era of planning, the private sector is still the dominant sector in the Indian economy. Under the

Notes

impact of the new economic policy this share is bound to turn more dominant. The new industrial policy (1991) has massively expanded the region of its operations and has offered for its place even in the basic and capital goods industries.

2. *The Contribution to Development:* The private entrepreneur serves as an innovator who revolutionizes the whole method of industrialization and economic development. In Western countries, private entrepreneurs have played a vital role in economic development so much so that Joseph Schumpeter has typified them as the imitator and moving force behind the industrialization process. It was due to this reason that the industrial policy resolutions of 1948 and 1956 gave huge opportunities to the private sector to spread its activities. In the latest liberalized scenario that has evolved after the announcement of the latest industrial policy in 1991, the private sector has been allotted the leading role in industrial development. Several developmental and financial institutions have been established by the government to observe that industries are not starved of legitimate financial requirements. These institutions offer long-term loans, underwrite their share and debenture problems, and offer feasibility studies and other services associated with their projects.

3. *The Growth in the Small-Business Sector:* Small and micro industries have a prominent role to play in the industrial field. These industries hire labour-intensive methods and are, accordingly, vital from the point of view of offering employment opportunities. In India, all small as well as cottage industries are in the private sector. The government has reserved a huge number of items for production in the small-scale sector. This sector is awarded loans at concession rates of interest and marketing outlets are also offered. Personal initiative plays a decisive function in small-scale enterprises. With the assistance of a small capital, the small entrepreneur utilizes his resources effectively to earn maximum profit. Such management is not accessible to public sector enterprises.

4. *The Diverse Structure:* Another vital feature of the private sector is the enhancement in the diversification of the industrial products. The consumer goods industries were, generally, reserved for the private sector. Under the current industrial policy, the region of operations which has been thrown open to the private sector has been additionally extended. Out of the various industries reserved for the public sector, nearly all but a few have been thrown open to the private sector. These involve such industries as aircraft manufacture, heavy plant and machinery.

5. *Rising Foreign Private Investment:* aspect feature of the growth of the private sector is the huge increase in the presence of the foreign private companies with a considerable segment of industries under their ownership and control. Investments have been made in a variety of regions like engineering, electronics, pharmaceuticals, chemicals, computers, automobiles. The degree of foreign direct investment (FDI), for instance, has indeed been huge in the past few years.

6. *Reasonably Profitable:* Apart from contributing to the industrial development with relation to the output and diversification of products, the private sector has something to its credit in its functioning. This is obvious from the working of the public limited as also private limited companies in the private corporate sector. The satisfactory outcomes are indicated by its fairly reasonable returns on net assets, sales, and net worth of the private sector. These indicators such as gross profits as the percentage of total net assets, the profitability ratios of gross profits as the percentage of sales, and profits after tax as the percentage of net worth have been in the range of more than 9% for a number of years.

7. The biggest private sector company with respect to market capitalization is Reliance Industries. The three top companies, with relation to assets, in 2007 were Reliance Industries, Tata Steel, and Hindalco (Business Standard, 2008). In current years the attention of several corporate sector observers has been transferring from the sales registered by a corporate

Notes

enterprise to its market capitalization. Market capitalization is merely the value allotted by the stock market to a firm.



Did u know? It is significant that the three top IT companies of the country—Infosys, TCS, and Wipro—are among the top-five companies in terms of market capitalization.

8. ***Importance for development:*** In western countries, private entrepreneurs have played a vital role in economic development so much so that Schumpeter has typified them as the initiator and moving force behind the industrialization process. The private entrepreneur is directed by the profit motive. He is accountable for the introduction of new commodities, new methods of production, assembling the essential plant and equipment, labour force and management and arranging them into a going concern. These activities assist the process of industrialization and economic development. It was due to this reason that the industrial policy resolutions of 1948 and 1956 of the government provided great opportunities to the private sector to increase its activities. In the new liberalised scenario that has evolved after the declaration of the latest industrial policy in 1991, private sector has been allotted the leading role in industrial development.



Notes The private entrepreneur acts as an innovator who revolutionizes the entire method of production.

Self Assessment

Fill in the blanks:

3. The new paradigm of ..... has helped to promote private investment.
4. In India, the state demarcated the areas for the public and private sector in the Industrial Policy of .....

13.3 Importance of Private Sector in Indian Economy

The significance of private sector in Indian economy over the past 15 years has been huge. The opening up of Indian economy has resulted in free inflow of foreign direct investment (FDI) along with contemporary cutting edge technology, which enhanced the significance of private sector in Indian economy substantially.

Previously, the Indian market was governed by the government enterprises but the scene in Indian market altered as soon as the markets were opened for investments. This led to the increase of the Indian private sector companies, which prioritized customer's requirement and speedy service. This additionally fuelled competition amongst similar industry players and even in government organizations.

The post 1990 period observed total investment in favour of Indian private sector. The investment quantum expanded from 56% in the first half of 1990 to 71 % in the second half of 1990. This trend of investment persisted for over a substantial period of time. These investments were particularly made in sector such as financial services, transport and social services.

The late 1990s and the eras thereafter observed investments in sector like agriculture products, manufacturing, infrastructure and most significantly in Information technology and telecommunication. The current trend depicts a marked increase in investment in regions covering semiconductor, pharmaceutical, biotechnology, contract research and product research and development.

Notes

The significance of private sector in Indian economy has been very commendable in producing employment and hence removing poverty. Additionally, it also affected the following:

- Increased quality of life
- Increased production opportunities
- Increased access to essential items
- Lowered prices of essential items
- Improved social life of the middle class Indian
- Decreased the percentage of people living below the poverty line in India
- Increased value of human capital
- Changed the age old perception of poor agriculture based country to a rising manufacturing based country
- Dissolved the concept of monopoly and thus neutralized market manipulation practices
- Effected increased research and development activity and spending
- Ensured fair competition amongst market players

The significance of private sector in Indian economy can be observed from the huge growth of Indian BPOs, Indian private banks, Indian software companies, and financial service companies. The manufacturing industry of India is overflowing with private Indian companies and in fact they lead the said industry. Manufacturing companies including sectors such as automobile, agri-foods, chemicals, telecommunication equipment, textiles, computer hardware, and petrochemical products were the chief driver of growth.

The Indian BPO sector is more concerned with delivering services to overseas clients. The KPO sector is involved in rendering knowledge based high-end services to clients. It is assessed, that out of the overall US $ 15 billion KPO service business about US $ 12 billion of business would be outsourced to India by the close of 2010.

Notes In India, Business Process Outsourcing (BPO) is the fastest growing segment of the ITES (Information Technology Enabled Services) industry. Factors such as economy of scale, business risk mitigation, cost advantage; utilization improvement and superior competency have all lead to the growth of the Indian BPO industry. Business process outsourcing in India, which started around the mid-90s, has now grown by leaps and bounds.

Self Assessment

Fill in the blanks:

5. The opening up of Indian economy has led to free inflow of .....
6. The post 1990 era witnessed total ..... in favour of Indian private sector.
7. The importance of private sector in Indian economy has been very commendable in generating ..... and thus eliminating poverty.
8. The Indian BPO sector is more concentrated with rendering services to ..... clients.

Notes

13.4 Shortcomings of the Private Sector Enterprises

1. *Profit generation is the main motive:* Industrialists in the private sector function with the sole purpose of maximizing profits. As a result, they are interested in investing only in those industrial sectors where rapid profit generation is possible. Hence, they are inclined to invest in consumer goods industries and avoid investments that are important for building up a suitable industrial infrastructure. Since absence of infrastructure and capital goods industries afflicted the Indian economy after Independence, whereas private sector was unwilling to invest in these regions, the public sector had to step in.

   Hence, for a substantial period of planning, whereas the public sector bore the role of building the capital goods and basic industries and industrial infrastructure (transportation, electricity and power, communications etc.), the private sector focused on consumer goods industries; where investments were less and profits great. Hence, a number of economists claim that in the initial phase of industrial development lasting for nearly three decades, the private sector was not keen to shoulder the responsibility of a chief mover of economic development processes.

2. *Focus on consumer durables sector:* Even in the consumer goods sector, the concentration of the private sector is on the privileged consumer groups since it is such groups that have plenty of purchasing power. Hence, the production pattern is tilted in favour of the considerably small richer portions of the society. As a consequence, while production of elite consumer durable goods such as consumer electronics and automobiles is motivated, the production of mass consumption goods is avoided. Some economists claim that this infers the wastage of the economic surplus of the country on needless industrial activities whereas the 'core' economic activities suffer. This causes, what they call, 'distortions in production structure'. But, if the increasing trends of liberalization in the Indian economy during the past two decades are any sign, the Government of India now considers these investments as 'prime movers of growth' instead of distortions.

3. *Monopoly and concentration:* It is the usual pattern of capitalist development that, as the economy advances, the monopoly organizations is reinforced and concentration of wealth and economic power in a few hands rises. This has occurred in India also. In the pre-Independent India, this was motivated by the managing agency system.

   After Independence, with the start of economic planning in the country, it was anticipated that this tendency would be efficiently controlled. But, this could not be. The Mahalariobis Committee indicated in 1964 that the operation of the system had really led to increase in the concentration of wealth and economic power. Identical conclusions were arrived at by the Monopolies Enquiry Commission in 1965. Such tendencies have been further reinforced by the considerable liberalisation of industrial policy in the past two decades which has facilitated the large business houses to amass substantial wealth with the outcome that concentration of economic power has further enhanced.

4. *Declining share of net value added in total output:* Net value added is described as the amount produced over and above the cost of raw materials which go to the production system after permitting for the depreciation charges. It, thus, points out the efficiency of the production process. Several industries in the private sector have registered a fall in the share of net value added in output in a number of years. This fall depicts that the same amount of raw materials has produced less output. It, thus, infers a decline in efficiency.

5. *Infrastructure bottlenecks:* Serious capacity shortfalls, poor quality and high –cost of infrastructure persists to restrict Indian businesses. The most vital infrastructural constraint is power. Industry surveys have discovered that unscheduled power cuts, acute power shortfalls, erratic power quality (low voltage coupled with fluctuation), delays and informal payments needed attaining new connections, and very great industrial energy costs, hurt industry performance as well as competitiveness.

Notes

Frequent and considerable power cuts (majorly unscheduled) have compelled many units to function their own (captive) generators, further raising the cost of power for industry and decreasing firm competitiveness. A World Bank - CII survey performed in 2002 found that 69% of the manufacturing firms surveyed across India had their personal power generator, far over the 30% in China.



Notes For garments and electronics, energy costs in Indian firms were found to be twice those in Indonesia, the Philippines, and Thailand.

6. *Contribution to trade deficit:* A huge number of private sector companies have been resorting to huge imports in the post-liberalisation phase to upgrade then-technology in a bid to prepare for global competition. As a consequence, their import expenditures have risen at a much quicker rate than their export earnings. This has increased the country's trade deficit.

7. *Industrial disputes:* In comparison to public sector enterprises, the private sector enterprises endure from more industrial disputes. Differences and conflicts between the owners and employees with relation to wages, bonus, retrenchment and other problems frequently evolve. Though there is a facility for Works Committees, Arbitration Boards, etc. for settlement of industrial disputes, the employers possess better bargaining strength. Taking benefit of this, they frequently refuse to accede even the genuine demands of workers and the conflicts presume the shape of long drawn out struggles. Industrial disputes frequently lead to strikes, lockouts, gherao, etc. Precious mandays are lost and productive activity suffers.

8. *Problems relating to finance and credit:* As the rate of capital formation in the economy is less and the capital market is in an underdeveloped state, the private sector enterprises have to encounter serious issues in organizing finances. Due to high inflationary tendencies in the economy, people are drawn towards purchasing gold, land, and jewellery and are not keen to invest in industries. Inflationary situations have also given birth to black marketing and a big parallel economy which discourages funds from productive activities. The industrial finance institutions have closed this gap to some degree but the problem persists to be huge.



Task Collect the data about the top 5 private sector enterprises in India.

Self Assessment

Fill in the blanks:

9. It is the general pattern of capitalist development that, as the economy progresses, the ..... organizations is strengthened and concentration of wealth and economic power in a few hands increases.

10. Lack of ..... and capital goods industries plagued the Indian economy after Independence.

11. Valuable ..... are lost and productive activity suffers.

Notes



Case Study **Sustainable Solutions by the Private Sector to India's Problems**

Sustainable solutions mean meeting our lifestyle and existential requirements in a manner which is harmonious with the environment and does not jeopardize the future of our existence on this planet.' Sustainability' is no longer a buzzword but reflects an indispensability as our survival depends on it. India, aspiring to be an opinion leader and increasingly emerging as one, especially in the aftermath of the recession, needs to be at the vanguard of this movement and lead from the front. The Indian private sector, known for its resilience and entrepreneurship, is ideally placed to lead this movement and the government's policies in this regard, although not adequate as of now, are at least encouraging and reflect the right intentions. A combination of entrepreneurship and adequate policies has the potential of making India a role model for many to follow and emerge as a true super power, as only a high GDP growth rate is not the sole criterion in today's scenario to be considered a superpower. A superpower is one that is at the helm of solving mankind's problems and the greatest threat looming is that of 'sustainable development' and as elaborated later in the various solutions proposed, this would also lead to equitable development, unlike the present scenario of inequity and skewed growth and prosperity. The solutions, developed to meet the needs of our people, can be transplanted in various countries and help them redress similar challenges and we can emerge as a nursery of many sustainable solutions to mankind's challenges.

The various needs of Indians as well as the solutions to serve those needs in a sustainable manner have been discussed hereinafter. The common thread across all the people-centric solutions is a strong understanding of the root cause of the troubles and challenges faced by Indians, as the momentum for sustainability is derived from people. The solutions proposed are not limited to the provision of products and services to cater to the unmet needs of Indians from the viewpoint of consumers but to think of them as partners and allies in our fight for sustainability. The emphasis is not only on meeting the unmet needs of Indians but also to develop the market and inculcate a culture of fostering 'sustainability'. In many of the areas proposed, the government initiatives and programmes have been mentioned in order to convey the commitment of the government in the said area, for in a country like India, given its socio-economic realities, government's role becomes important. It acts as a booster for the private sector and acts as a catalyst to make a success out of their investment. It has been discussed as to how the private sector can contribute to realizing the purpose of these initiatives.

Drinking Water: Potable drinking water is a scarce resource for many Indians and thousands die every year of water-borne diseases like dysentery and cholera. For such a scarce and precious resource, people have scant regard. There is a massive market to be tapped for water purifiers, rain water harvesting systems and water-recycling systems. Municipal corporations in various cities like Chennai have started providing rebate on house tax for houses installing rain-water harvesting system, to incentives people for the same. The availability of fresh water is essential to this cause and hence the private sector can partner with local bodies, NGOs and citizen groups in planting trees, protecting local water bodies and aquifers. Government initiatives like JNNURM (Jawaharlal Nehru National Urban Renewal Mission) provide the right impetus and support for the private sector to invest.

Housing: With growing population and rapid urbanization, housing is a big area of opportunity. The number of people in cities is expected to more than double to 600 million from the present 300 million in 20 years' time but there is almost non-existent urban

Contd...

Notes



Case Study

Sustainable Solutions by the Private Sector to India's Problems

Sustainable solutions mean meeting our lifestyle and existential requirements in a manner which is harmonious with the environment and does not jeopardize the future of our existence on this planet.' Sustainability' is no longer a buzzword but reflects an indispensability as our survival depends on it. India, aspiring to be an opinion leader and increasingly emerging as one, especially in the aftermath of the recession, needs to be at the vanguard of this movement and lead from the front. The Indian private sector, known for its resilience and entrepreneurship, is ideally placed to lead this movement and the government's policies in this regard, although not adequate as of now, are at least encouraging and reflect the right intentions. A combination of entrepreneurship and adequate policies has the potential of making India a role model for many to follow and emerge as a true super power, as only a high GDP growth rate is not the sole criterion in today's scenario to be considered a superpower. A superpower is one that is at the helm of solving mankind's problems and the greatest threat looming is that of 'sustainable development' and as elaborated later in the various solutions proposed, this would also lead to equitable development, unlike the present scenario of inequity and skewed growth and prosperity. The solutions, developed to meet the needs of our people, can be transplanted in various countries and help them redress similar challenges and we can emerge as a nursery of many sustainable solutions to mankind's challenges.

The various needs of Indians as well as the solutions to serve those needs in a sustainable manner have been discussed hereinafter. The common thread across all the people-centric solutions is a strong understanding of the root cause of the troubles and challenges faced by Indians, as the momentum for sustainability is derived from people. The solutions proposed are not limited to the provision of products and services to cater to the unmet needs of Indians from the viewpoint of consumers but to think of them as partners and allies in our fight for sustainability. The emphasis is not only on meeting the unmet needs of Indians but also to develop the market and inculcate a culture of fostering 'sustainability'. In many of the areas proposed, the government initiatives and programmes have been mentioned in order to convey the commitment of the government in the said area, for in a country like India, given its socio-economic realities, government's role becomes important. It acts as a booster for the private sector and acts as a catalyst to make a success out of their investment. It has been discussed as to how the private sector can contribute to realizing the purpose of these initiatives.

Drinking Water: Potable drinking water is a scarce resource for many Indians and thousands die every year of water-borne diseases like dysentery and cholera. For such a scarce and precious resource, people have scant regard. There is a massive market to be tapped for water purifiers, rain water harvesting systems and water-recycling systems. Municipal corporations in various cities like Chennai have started providing rebate on house tax for houses installing rain-water harvesting system, to incentives people for the same. The availability of fresh water is essential to this cause and hence the private sector can partner with local bodies, NGOs and citizen groups in planting trees, protecting local water bodies and aquifers. Government initiatives like JNNURM (Jawaharlal Nehru National Urban Renewal Mission) provide the right impetus and support for the private sector to invest.

Housing: With growing population and rapid urbanization, housing is a big area of opportunity. The number of people in cities is expected to more than double to 600 million from the present 300 million in 20 years' time but there is almost non-existent urban

Contd...

Notes

planning. Most of the private sector players are focused on the high value properties. For them, 'value housing' ('low cost housing' in market parlance) is a hedge against the fluctuating fortunes of the luxury market, as demonstrated during the recession when they flocked to build mass-housing project and once the recession was over, it was forgotten. Government is doling out incentives like availability of land at subsidized rates for mass-housing projects or inviting private developers to partner in such projects.

Waste management: Despite being a country that adds 1.8 crore people to its population, 50% higher than China, our waste management system is limited to land-fills. Private sector can step in to provide a large scale, efficient and organize waste management system or waste utilization system. Waste can be converted into energy and the by-product can be used as manure. It would not only take care of our energy requirements but also aid in organic agriculture.

Energy: Despite having 17% of the world's population, India consumes only 3% of the total energy generated in the world whereas China, having 20% of the population consumes 21% of the energy. This shows the huge scope for rise in power demand. Conventional sources of energy cannot power our needs beyond a few more decades. Sources like biomass and wind energy hold great promise. Bio-fuels derived from sources like Jatropha also hold great promise. In fact, a few years back, Daimler India had used this fuel to test-run its Mercedes car and the results were encouraging although mileage was a concern. These ventures have a great community involvement as large groups of rural people can be employed to collect the jatropha seeds or biomass and hence would have very high 'multiplier effect' .Biomass plants can be set up in various regions and each plant can fulfil the needs of its respective locality. We can no longer afford to continue with centralized power generation and its transmission and distribution to distant places. It would also address the large transmission and distribution losses It is difficult to reconcile sustainability with such centralized generation. The government policies under NAP (National Action Plan on Climate Change) and the UNFCCC framework incentivise such initiatives of the private sector. UNFCCC also provides for additional revenue in the form of carbon credits.

Healthcare: A large section of our population does not get access to quality healthcare and it provides a great scope for the private sector to step in. We have a large treasure of traditional methods of healing. The world at large bears testimony to the benefits of ayurvedic medicines and we have treatises on ayurveda and other traditional forms of medicine apart from the fields like naturopathy and Unani. Private sector can act as a bridge between the practitioners and the people. Although it cannot substitute surgery in the near future but with more research, it will increasingly play greater role in our lives. Many of the health problems, barring major ones like cancer, can be treated with their use. A case in point being the benefits accruing to many of the victims of the Bhopal gas leak, 1986 .In the aftermath of the tragedy, a combination of ayurveda, naturopathy and modern medicines has proved to be beneficial in bringing relief to the patients affected by poisonous gas. The anganwadi workers, in rural areas, can act as a channel to disseminate information as well as be the points-of-sale of these products. The Indian postal network comprising of thousands of postmen can be used as a channel to distribute products. Accreditation by quality controllers is of essence and it not only helps in establishing credibility to the products but also would help it growth of the sector. The emphasis of the Health ministry and its AYUSH department on research in traditional medicine systems as well as spreading awareness about them augurs well for sustainable solutions to our health problems. Private sector should also look at taking over or managing the many defunct and inefficient government hospitals and tertiary care centres across the country.

Ambulance services: As per a report by Mumbai's Sion Hospital, only 8% of accident victims in India are transported by ambulance to hospital. It is agreed by the medical

Contd...

Notes

community and validated by statistics that the first hour after any mishap is the most crucial one and often the difference between life and death. Alarmingly, there is a dearth of ambulance services and the patients are largely dependent on the facilities provided by the hospitals. This being utterly inadequate, private sector can help bridge the wide chasm. The ambulance service should be effective and if a pizza boy can deliver pizzas in 30 minutes, thinking should be on the lines of two-wheeler ambulances and working with the traffic police in order to inculcate a culture among motorists to make way for an ambulance.

Education: In India, education has been reduced to a mere mark scoring exercise characterized by mugging taking precedence over learning and thereby undermining the very essence of education, which is a process of endowing humans with analytical skills, knowledge of various phenomena around them and a means of enabling them to lead a qualitative and purposeful life. As a result, we do not produce individuals of character and this is a great liability for a country aspiring to be a superpower. A major step in this regard is providing quality educational infrastructure to our students at all levels. This need is acute in rural areas .It ought to be an amalgamation of quality and value-proposition to accomplish the desired objective. Private sector can cater to meet the shortfall in quality by establishing schools and colleges and also providing training facilities for teachers. It can collaborate with the foreign institutes in establishing colleges and universities in order to bring the best of the global practices and the Foreign Universities Bill aids this. While quality is a problem, access to education is a bigger problem. Private sector institutes must collaborate with banks to make student loans available to deserving students at an affordable rate. The government's plan to set up a fund to meet the financial requirements of students would be a great enabler in this regard.

Food processing: Food processing is the need of the hour and cardinal to our existence in today's time. Government's initiatives and efforts in promoting it are laudable. For instance, 100% depreciation is allowed in the first year apart from other tax and investment-linked benefits. It would also provide better realization to the farmers apart from making quality value-added products available round the year.

In our country, lakhs of tonnes of food grains are left to rot while people die of hunger. Such stocks can be utilized by the private sector and can improve the shelf-life of the produce. Government also provides incentives to invest in cold storage so as to fortify the supply chain to prevent wastage of agricultural produce. They can be fortified with nutrients and can be used to cater to the huge market and Indians grappling for a nutritious diet would be the biggest beneficiaries. Such fortified products can also be made a part of various government initiatives like mid-day meal scheme and others. This would address a large market and great need (according to the state of Food Insecurity in the World, FAO, 237.7 million people suffer from chronic hunger).

Handicrafts: As a country, we are blessed with a wide variety of crafts. Entrepreneurs must explore the huge demand for crafts among Indians across the country. They can tie up with practitioners of the craft or the practitioners can come together to market the products. This would provide a lifeline to many of the troubled and financially-stricken craftsmen. It would save them from the vice-like grip of the exploiting money-lenders and middlemen. The private sector can bring in global best practices and blend them with the traditional methods used by the craftsmen and workers. It can incorporate eco-friendly practices and can help in branding and marketing the products. The patrons of craft can enjoy products of high quality at an affordable cost. Additionally, such eco-friendly products command a large market abroad.

The above-mentioned solutions are an effort at addressing a cross-section of our needs. In all the proposed solutions, there is an effort to benefit the lowest common denominator of the country as the well-being of a country is proportional to the well-being of its lowest

Contd...

Notes

common denominator. Community participation is key to ensure sustainability and also ensures equitable benefits to all sections of the people, unlike the skewed state of affairs today. . Sustainability has been addressed not only from the ecological point of view but also from the points of view of equal distribution of resources and benefits across sections of Indians.

Questions:

1. How can the private sector best serve the unmet needs of India's people in a sustainable way?
2. How the private sector can contribute to healthcare and education?

Source: http://www.indiafutureofchange.com/featureEssay_D0130.htm

13.5 Summary

- The most interesting fact about the private sector of India economy is that though the overall pace of its development is comparatively slower than the public sector.
- Public Sector in India was developed as an instrument for self-reliant economic growth.
- The country adopted the planned economic development polices, which envisaged the development of PSUs.
- In India, the state demarcated the areas for the public and private sector in the Industrial Policy of 1956.
- The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which increased the importance of private sector in Indian economy considerably.
- The importance of private sector in Indian economy can be witnessed from the tremendous growth of Indian BPOs, Indian software companies, Indian private banks and financial service companies.
- A number of economists allege that in the initial phase of industrial development lasting for about three decades, the private sector was not willing to shoulder the responsibility of a prime mover of economic development processes.
- As compared to public sector enterprises, the private sector enterprises suffer from more industrial disputes and also they have to encounter serious difficulties in arranging finances.

13.6 Keywords

BPO: *BPO* stands for *business process outsourcing, which means* the process of hiring a company which is capable of doing tasks on your behalf at much lesser cost so that you can focus on your main job.

Foreign Direct Investment: Foreign Direct Investment is an investment made by a company or entity based in one country, into a company or entity based in another country.

KPO: *Knowledge process outsourcing* (*KPO*) is the allocation of relatively high-level tasks to an outside organization or a different group within the same organization.

Market capitalization: Market capitalization is simply the value assigned by the stock market to a firm.

Net value added: Net value added is defined as the amount generated over and above the cost of raw materials which go to the production system after allowing for the depreciation charges.

Overseas: It can just mean to travel to another country.

Notes

13.7 Review Questions

1. Explain the importance of Private sector in Indian Economy.
2. Describe the evolution of Private sectors in India.
3. How did Industrial Policy Resolution in 1956 classified industries?
4. What did Schedule B category include?
5. Explain the Industrial Licensing Policy.
6. Describe the role of private sector enterprises in Indian Economy.
7. Distinguish between private sector and public sector enterprises.
8. What are the shortcomings of private sector in India?
9. Define Market capitalization.
10. What do you mean by BPO?

Answers to self-Assessment

1.	First	2.	Enterprises
3.	public-private partnership	4.	1956
5.	foreign direct investment (FDI)	6.	investment
7.	employment	8.	overseas
9.	monopoly	10.	infrastructure
11.	mandays		

13.8 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *" Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://shodhganga.inflibnet.ac.in/bitstream/10603/3798/10/10_chapter%204.pdf

http://www.adbi.org/book/2004/10/07/602.private.sector.prc/the.growing.role.of.private.sector/

http://www.slideshare.net/avnishbajpai/public-and-private-sector-in-india

Unit 14: Planning in India

Notes

CONTENTS

Objectives

Introduction

14.1 The Eleventh Five Year Plan

14.1.1 Economic Scenario on the Eve of Eleventh Plan

14.1.2 Objectives of Eleventh Five Year Plan

14.1.3 Vision for the Eleventh Plan

14.1.4 Macroeconomic Indicators for the 11th Five Year Plan

14.2 Twelfth Five Year Plan

14.2.1 Inclusive Strategy

14.2.2 Strategy for Achieving Inclusiveness

14.2.3 Macro-Economic Challenges in Achieving High Growth

14.3 Summary

14.4 Keywords

14.5 Review Questions

14.6 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the Eleventh Five Year Plan
- Explain the economic scenario on the eve of Eleventh Plan
- Describe the objectives and visions of Eleventh Five Year Plan
- Explain Twelfth Five Year Plan, its objectives and strategy.

Introduction

The Indian economy, on the eve of the Twelfth Plan, is typified by strong macro basics, and a very great performance over the Eleventh Plan era, though clouded by some decline in growth in the recent year, on-going concern about inflation and an instant increase in uncertainty related to the global economy. The objective of the Eleventh Plan was quicker and inclusive growth and the initiatives taken in the Eleventh Plan period have led to considerable progress towards both goals. Inevitably, there are some weaknesses that require to be addressed and also new challenges that require to be confronted. Few of the challenges are themselves the result of the economy's transition to a greater and more inclusive growth path.

14.1 The Eleventh Five Year Plan

The National Development Council in December 2006 sanctioned the Approach to the 11th Plan document named "Towards faster and more Inclusive growth" and guided the Planning Commission to prepare a detailed plan to evaluate the resources needed to meet the broad goal

Notes

set forth in the Approach Paper. The comprehensive version of the Eleventh Five Year Plan (2007-12) was sanctioned by the National Development Council in December 2007.

14.1.1 Economic Scenario on the Eve of Eleventh Plan

Defining its vision, the Eleventh Plan observed that 'the economy accelerated in the Tenth Plan period (2002-03 to 2006-07) to a record average of growth of 7.6 per cent – the highest in any Plan period so far.' It focused on the fact that during the past 4 years of the Tenth Plan, average GDP growth was 8.6% making India one of the quickest growing economies in the world.

The saving as well as investment rates have also risen. The industrial sector has reacted well to confront competition in the global economy. Foreign investors are desirous to invest in the Indian economy. However "a major weakness in the economy is that growth is not perceived as being sufficiently inclusive for many groups, especially SCs, STs and minorities. The lack of inclusiveness is borne out by data on several dimensions of performance."

1. "The percentage of population under the official poverty line has decreased from 36% in 1993-94 to 28% in 2004-05. But, not only this is high, the rate of decrease in poverty has not quickened with GDP growth and the incidence of poverty among specific marginalized groups, for example the Scheduled Tribes, has hardly decreased at all. As the population has expanded, the absolute number of poor people has decreased only marginally from 320 million in 1993-94 to 302 million in 2004-05. This performance is all the more disappointing as the poverty line on which the evaluation of the poor is based is the same as in 1973-74, when per capita incomes were much lesser."

2. Indicators of deprivation advise that the ratio of population robbed of a minimum level of living is much greater. This is depicted by the following:

   (a) As per National Family Health Survey, 46% of the children in the 0-3 age group suffered from malnutrition in 2005-06, however the more disturbing fact is that there is no decrease from the level of 47% reported in 1998.

   (b) Human Development indicators such as literacy, maternal and infant mortality rates also depict that the progress is gradual and India lags behind various other countries in Asia. While literacy rate has increased to 64.8% in 2001, the number of illiterates still surpasses 304 million, making India the country with the biggest number of illiterates. Life expectancy during 2001-06 is 63.9 years for males and 66.9 years for females, is still lower than 72 years for China. Opposing sex ratio with only 933 women for 1,000 men is another reason for concern. More distressingly, the child sex ratio (ages 0-6) has reduced abruptly from 962 in 1981 to 927 in 2001. Infant mortality rate are greater than those of countries in East Asia.

3. Agriculture growth persists to be slow-moving and was of the order of 2.1 per cent during the 10th Plan, in spite of a target of 4% growth.

4. Present daily status unemployment rate rose from 7.3% in 1999-00 to 8.3% in 2004-05, In spite of the higher GDP growth of 7.6% during the 10th Plan. Furthermore, the whole increase in employment has occurred in the unorganized sector. A very disturbing aspect of the employment condition is: "Permanent employment in the organized sector has decreased, although organized sector firms may be increasing their informal employment." This depicts worsening in the quality of employment.



Notes The 11th Plan provided an opportunity to restructure policies to achieve a new vision based on faster, more broad - based and inclusive growth. It was designed to reduce poverty and focus on bridging the various divides that continue to fragment our society.

Notes

Caselet **11th Plan: Exclusion and Deprivations**

Despite an average 7.9 per cent growth in GDP (Gross Domestic Product) during the 11th Plan Period -sometimes peaking to 9 per cent- the performance of India in terms of the Human Development Index (indicative of inclusive growth and the extent of population benefiting from development) saw a downward slide from 128th and 127th positions in 2000 and 2005 respectively to 134th position in 2009 and 2011. While a handful are reaping benefits and have entered the billionaires club, millions are being forced into deprivation and disempowerment. For the first time in history, four Indians found a place amongst the 10 richest people of 2009, but three out of every ten poor people in the world in the same year were also Indians - an unusual phenomenon of continuing poverty and marginalisation in the midst of galloping plenty.

While Planning Commission of India accepts GDP as a measure for assessing growth, it has not taken any steps to adopt any tool to quantitatively measure "inclusive growth". Models and measures are indeed available to determine inclusivity of growth in the form of Gini Coefficient (the measure of income inequality) and HDI (Human Development Index) etc., but what seems to be lacking is the appropriate development philosophy and political will to adopt them. With such systemic privileging of "growth" and gross omission of any measures to assess "inclusion", our planning process has taken a trajectory that has resulted in the doubling of inequity in incomes in India during the last 20 years, making it the worst performer on this count of all emerging economies according to a report of OECD (Organisation of Economic Cooperation and Development) released in December 2011. The OECD Report further shows that the top 10 per cent wage earners in India now make 12 times more than the bottom 10 per cent. Ironically, this was also a period when the GDP of the country started increasing at an unprecedented rate making it one of the fastest growing economies in the world.

Further, despite all assertions of social inclusion, India spends an abysmal 5 per cent of its GDP on social protection schemes as compared to more than 15 per cent by Brazil, and during the last two decades India's Gini Coefficient has climbed from 0.32 to 0.38 with 0 being the ideal score.

Source: http://www.epw.in/web-exclusives/twelfth-five-year-plan.html

14.1.2 Objectives of Eleventh Five Year Plan

The Plan imagines a high growth of GDP of the order of 9 per cent for the country as whole. This infers that per capita GDP would expand at nearly 7.5% per year to double in 10 years.

But, the Plan document rushes to add that the target is not just quicker growth but also comprehensive growth which ensures wide based improvement in the quality of life of the people, particularly the poor SCs/STs, OBCs as well as the minorities.

Did u know? The first Indian Prime Minister, Jawahar Lal Nehru presented the first five-year plan to the partition of India and needed urgent attention.

14.1.3 Vision for the Eleventh Plan

The wide vision of the 11th Plan involves various inter-related components like:

1. Rapid growth that decreases poverty and develops employment opportunities;
2. Access to necessary services in health and education particularly for the poor;

Notes

3. Empowerment via education and skill development;
4. Expansion of employment opportunities utilising National Rural Employment Guarantee Programme;
5. Environmental sustainability; and
6. Decrease of gender inequality.

Targets set to achieve the objectives: The targets set to acquire the goals of the Eleventh Five Year Plan are as below:

Income and Poverty

1. Generation of 58 million employment opportunities.
2. Average GDP growth of 9% per year.
3. 20% increase in the real wage of unskilled workers.
4. Agricultural GDP growth of 4% per year.
5. Reduction unemployment among the educated to less than 5%.
6. Reduction in headcount ratio of poverty by 10 percentage points.

Education

1. Reduction in drop-out rate among children at the elementary level from 52.2% in 2003-04 to 20% by 2011-12.
2. Increasing the percentage of persons going for higher education from 10% to 15% by 2011-12.
3. Raising literacy rate for persons 0-7 years or more to 85% by 2011-12.
4. Developing minimum standards of accomplishment in elementary schools, to make certain quality of education.
5. Decreasing gender gap in literacy to 10 per cent points by 2011-12.

Health

1. Infant mortality rate (IMR) to be decreased to 28 and maternal mortality rate (MMR) to 1 per 1,000 by 2011-12.
2. Clean drinking water to be made accessible to all by 2009.
3. Total fertility rate to be reduced to 2.1 by 2011-12.
4. Anaemia among women and girls to be decreased to half its present level.
5. Malnutrition among children of age 0-3 to be decreased to half its current level.

Women and Children

Making sure that minimum 33% of beneficiaries of all government schemes are women and girl children.

1. Sex ratio for age group 0-6 to be increased to 935 by 2011-12 and to 950 by 2016-17.
2. Making sure that all children enjoy a secure childhood, without any necessity to work.

Infrastructure

1. To make sure electricity connection to all villages and BPL (Below Poverty Line) Households by 2009 and dependable power by the end of the 11th Plan.

Notes

2. To offer homestead sites to all by 2012 and step up the speed of housing construction for the poor to include all the poor by 2016-17.
3. To make sure all, weather road connection to all habitations with population 1000 and above (500 and above for hilly regions) by 2009.
4. To link every village by telephone and offer broad band linkage to all village by 2012.

Example: The World Bank cites Bengaluru as an example of a city struggling to cope with rapid growth on the back of a vibrant IT industry.

Environment

1. To raise forest and tree cover by 5 percentage points.
2. To raise energy efficiency by 20 percentage points and improvement of governance.
3. To treat all urban waste water by 2011–12 to clean river waters.
4. To acquire WTO standards of air quality in all main cities by 2011–12.

Did u know? The Planning Commission on Monday released the latest poverty estimates for the country showing a decline in the incidence of poverty by 7.3 per cent over the past five years and stating that anyone with a daily consumption expenditure of ₹ 28.35 and ₹ 22.42 in urban and rural areas respectively is above the poverty line.

14.1.4 Macroeconomic Indicators for the 11th Five Year Plan

The table offered below (14.1) depicts the list of microeconomic indicators in comparison to the position in the eleventh plan with tenth plan. As compared to the 10th Plan, the speed of growth of the economy has accelerated in the 11th Plan and therefore, it can be decided that macroeconomic basics of India are sound.

Table 14.1: Macroeconomic Indicators for the 11th Five Year Plan

Sl. No.	Macroeconomic Indicators	10th Plan (Actual)*	11th Plan (Average)
1.	Growth rate of GDP (%); of which;	7.2	9.0
	a. Agriculture	1.7	4.1
	b. Industry	8.3	10.5
	c. Services	9.0	9.9
2.	Investment rate (% of GDP)	27.8	35.1
	a. Public	6.7	10.2
	b. Private	21.1	24.9
3.	Domestic Savings rate (% of GDP) of which	28.2	32.3
	a. Household	22.8	22.0
	b. Corporate	4.5	6.1
	c. PSEs	4.2	3.0
	d. Government	– 3.2	1.2
4.	Current account balance (% of GDP)	0.2	– 2.8
5.	Government revenue balance (% of GDP)	– 4.4	– 0.2
6.	Government Fiscal balance (% of GDP)	– 8.0	– 6.0

*1. GDP growth rate is actual up to 2005–06 and as estimated by the EAC to PM for 2006–07. Savings rate, investment rate and CAB are actual up to 2004–05.
2. Government Fiscal Balance and Revenue Balance are Based on Actuals (3 Years for Centre and 2 Years for states) and for remaining Years RE / BE / Projected.

Source: http://www.winentrance.com/General_Knowledge/Economy/Eleventh-Five-Year-Plans.html

Notes

Self Assessment

Fill in the blanks:

1. The saving and ..... rates have also increased on the eve of 11th plan.
2. The lack of ..... is borne out by data on several dimensions of performance.
3. Indicators of ..... suggest that the proportion of population deprived of a minimum level of living is much higher.
4. ..... through education and skill development was one of the vision of Eleventh Five Year Plan.
5. Compared to the 10th Plan, the pace of growth of the economy has ..... in the 11th plan.

14.2 Twelfth Five Year Plan

The Union Cabinet on 4 October 2012 sanctioned the 12th five-year plan with its goal to renew Indian economy and utilise the funds from government in enhancing the amenities of education, sanitation and health. This plan has observed a three-fold rise in the budget constraints as compared to that of the 11th five-year plan. The plan would instil a big fund of 47.7 lakh crore rupees and this will assist to attain the economic growth to an average level of 9.5 per cent.

Twelfth five-year plan is directed by the policy guidelines as well as principles to recover the following Indian economy, which recorded a growth rate of merely 5.5 per cent in the initial quarter of the financial year 2012-13.

The plan targets towards the improvement of the infrastructural projects of the nation ignoring all kinds of bottlenecks. The document offered by the planning commission is targeted to draw private investments of till US$1 trillion in the infrastructural growth in the 12th five-year plan, which will also make sure a decrease in subsidy burden of the government to 1.5% from 2% of the GDP (gross domestic product). The UID (Unique Identification Number) will serve as a platform for cash transfer of the subsidies in the plan.

The plan targets towards attaining a growth of 4% in agriculture and to decrease poverty by 10 percentage points, by 2017.

The framed draft of the plan would be exhibited for final sanction prior to the National Development Council (NDC) that is led by the Prime Minister having the Cabinet Ministers as well as Chief Ministers on board. National Development Council (NDC) is the top decision making body and authority to announce the five year plan in the nation.



Notes Planners are sometimes criticized for focusing too much on GDP growth, when the real objective should be to achieve an improved quality of life of both people across economic and non-economic dimensions.

14.2.1 Inclusive Strategy

Growth must not only be quick, but also more comprehensive. The inclusive strategy includes much larger role of the State and closer synchronization between the Centre and the States, than would be required for purely corporate led strategy. This is as majority of the policy measures as well as institutional support needed for small and medium entrepreneur-led expansion lie in the field of the State Governments and local bodies.

Notes

Meaning of Inclusiveness: Inclusiveness depicts many varied things and every aspect of inclusiveness has its own challenges for policy. Inclusiveness is a multi-dimensional notion. Inclusiveness decreases poverty, enhances regional equality across states and inside states, enhances conditions for STs, SCs, OBCs and minorities It also produces attractive employment opportunities for youth and shuts gender gaps.

14.2.2 Strategy for Achieving Inclusiveness

There are two routes to inclusiveness. It can be acquired via higher growth which spreads income and employment opportunities and also via government pro-poor programmes which aim at poorer groups, both are equally vital. Twelfth Five Year Plan joins the pro-poor programme approach with attempts to get a growth pattern which is quicker and inherently more comprehensive. High growth produces more revenues, to fund inclusiveness programmes. Many inclusiveness programmes (health and education) lead to growth. These two routes are mutually strengthening.

14.2.3 Macro-Economic Challenges in Achieving High Growth

Few of the macro-economic challenges confronted by the economy in attaining high growth are as follows:

- Must raise the rate of investment, particularly in infrastructure.
- Government dis-savings must be removed. This means fiscal deficit must be decreased.
- Domestic savings must rise even more to decrease the investment saving gap which is essential to keep the Current Account Deficit under control.
- 75% of the investment in the economy is private investment (household plus corporate).
- Growth of subsidies has to be controlled.
- Infrastructure, particularly quality of power, and accessibility of skills is crucial.
- Both the Centre and the States have to develop an eco-system that motivates private investment.



Task Make a report on the comparative study on Eleventh Five Year Plan and Twelfth Five Year Plan.

Self Assessment

Fill in the blanks:

The ..... on 4 October 2012 approved the 12th five-year plan.

The 12th plan aims towards the betterment of the ..... projects of the nation avoiding all types of bottlenecks.

Growth must not only be rapid, but also more .....

High growth generates more ....., to finance inclusiveness programmes.

Government dis-savings must be eliminated. This means ..... must be reduced.

Twelfth Five Year Plan combines the ..... programme approach with efforts to get a growth pattern which is faster and inherently more inclusive.

Notes



Case Study

India's new 12th Five Year Plan – Faster, More Inclusive and Sustainable Growth

The Planning Commission in India has been producing Five Year Plans since 1951. These Plans set the strategic direction for the Government of India for the following five years. In December 2012, the Planning Commission published the near final draft 12th Five Year Plan – *Faster, More Inclusive and Sustainable Growth.* Simultaneous achievement of these elements is seen as crucial for the success of the Plan. The 12th Plan says that it *must be guided by a vision of India moving forward in a way that would ensure a broad-based improvement in living standards of all sections of the people through a growth process which is faster than in the past, more inclusive and also more environmentally sustainable'*

Thus the 12th Plan calls for more attention to be given to problem of sustainability. It states that *'No development process can afford to neglect the environmental consequences of economic activity, or allow unsustainable depletion and deterioration of natural resources'* and several chapters are devoted to the issues of water, land use, environment, forestry and wildlife.

There is wide ranging discussion of how India should deal with the effects of climate change whilst an international agreement to tackle this issue remains to be reached. The National Action Plan for climate change has evolved with eight component missions and implementation of these missions is seen as an integral part of the 12th Plan.

The Plan is a substantial document in three volumes. The first volume is an overarching document (the second and third volumes look in more detail at the economic and social sectors respectively). Of particular interest to UK scientists is the extensive discussion and description of the scientific and technical challenges facing India. Thus Chapter Four on *Sustainable Development* summarises the findings of the Expert Group on Low Carbon Strategies. One of the interesting things in the Plan is the renewed interest in wind power. Chapter Five on *Water* sets out the daunting challenges faced by Indian society and economy. Water tables are falling and this comes at a time of rapid industrialising economy and urbanising society. Climate change, of course, poses new challenges with its effects on the hydrological cycle. It asserts that there is a need for a paradigm shift in the management of water resources in India. Chapter Five on *Environment, Forestry and Wildlife* posits a new set of targets to be monitored covering, *inter alia*, environment and climate change, forests and livelihoods and ecosystem and biodiversity.

Finally, science and technology is recognised as playing a critical role in the delivery of the 12th Plan. There is an ambition to increase investment in in R&D from 1% to 2% of GDP. Chapter Eight sets out the plans for the six major science Ministries and all see a substantial increase in funding. Specific focus areas for the 12th Plan are: a) *Enrichment of Knowledge Base* – the aim is to position some of its R&D institutions in the top 50 in the world; b) *Human Resource Development and University Interaction* – a radical transformation of the science education system to improve the quality of S&T education and research at university level; c) *Aligning S&T to Development Needs* – to develop solutions to issues that are important for the country's development goals, particularly in areas of energy, water, sanitation, farm production, health care, waste disposal, computing and communications, and e-infrastructure.

If the ambition of investing 2% of GDP on R&D is achieved and the quality of its research base is improved, then India, by virtue of its size is likely to be one of the most important scientific nations in the world. What is certain is that India faces a host of challenges where capacity and capability in S&T and an innovation system that translates knowledge into solutions is going to be crucial. All in all, an interesting read.

Contd...

Questions:

1. What do you understand by inclusive growth and how it can be achieved?
2. List the specific focus areas for the 12th Plan.

Notes

Source: http://blogs.rcuk.ac.uk/2013/01/15/indias-new-12th-five-year-plan-faster-more-inclusive-and-sustainable-growth/

14.3 Summary

- The 11th Plan provides an opportunity to restructure policies to achieve a new vision based on faster, more broad-based and inclusive growth.
- Eleventh Plan was designed to reduce poverty and focus on bridging the various divides that continue to fragment our society.
- A key element of the strategy for inclusive growth must be an all-out effort to provide the mass of our people the access to basic facilities such as health, education, clean drinking water etc.
- While encouraging private sector growth the 11th Plan must also ensure a substantial increase in the allocation of public resources for Plan programmes in critical areas.
- The stated vision of the twelfth plan document is "of India moving forward in a way that would ensure a broad-based improvement in living standards of all sections of the people through a growth process which is faster than in the past, more inclusive and also more environmentally sustainable".
- There are two strategies of twelfth plan. They are to reverse the current growth slowdown and to get back to high growth in this global situation at present.
- The economic growth must not only be rapid, but also more inclusive.

14.4 Keywords

Deprivation: A state of deprivation means something is missing, and the situation is serious.

Inclusiveness: The *definition* of *inclusiveness* is an aura or environment of letting people in and making them feel welcome.

Macroeconomic: Study of the behaviour of the whole (aggregate) economies or economic systems instead of the behaviour of individuals, individual firms, or markets (which is the domain of Microeconomics).

Regional Inequality: A disparity between the standards of living applying within a nation.

Sluggish economy: A state in the economy in which the growth is slow, flat or declining. The term can refer to the economy as a whole or a component of the economy, such as weak housing starts.

Sustainability: Sustainability is the "long-term, cultural, economic and environmental health and vitality" with emphasis on long-term, "together with the importance of linking our social, financial, and environmental well-being".

UID: (Unique ID) is an exclusive name or number that is assigned to a person or device for identification purposes.

14.5 Review Questions

1. What do you understand by Inclusiveness?

Notes

2. What is inclusive growth strategy?
3. How far did the 11th Plan justify the inclusive growth?
4. Explain the economic scenario on the eve of Eleventh Plan.
5. What are the objectives of Eleventh Five Year Plan?
6. Describe the vision for the Eleventh Plan
7. What targets were set to achieve the objectives of Eleventh Five Year Plan
8. Define the objectives of Twelfth Five Year Plan
9. What is strategy for achieving Inclusiveness?
10. Give a brief note on the macro-economic challenges in achieving high growth.

Answers: Self Assessment

1. Investment
2. Inclusiveness
3. Deprivation
4. Empowerment
5. Accelerated
6. Union Cabinet
7. Infrastructural
8. Inclusive
9. Revenues
10. fiscal deficit
11. pro-poor

14.6 Further Readings



Books

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Gupta, Kulwant Rai (2009), *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.



Online links

http://planningcommission.nic.in/plans/planrel/app11_16jan.pdf

http://www.slideshare.net/azaanafsar/eleventh-five-year-plan-19055880

http://www.csmantra.com/Economy/11th-five-year-plan/Indicators-for-Plan.html