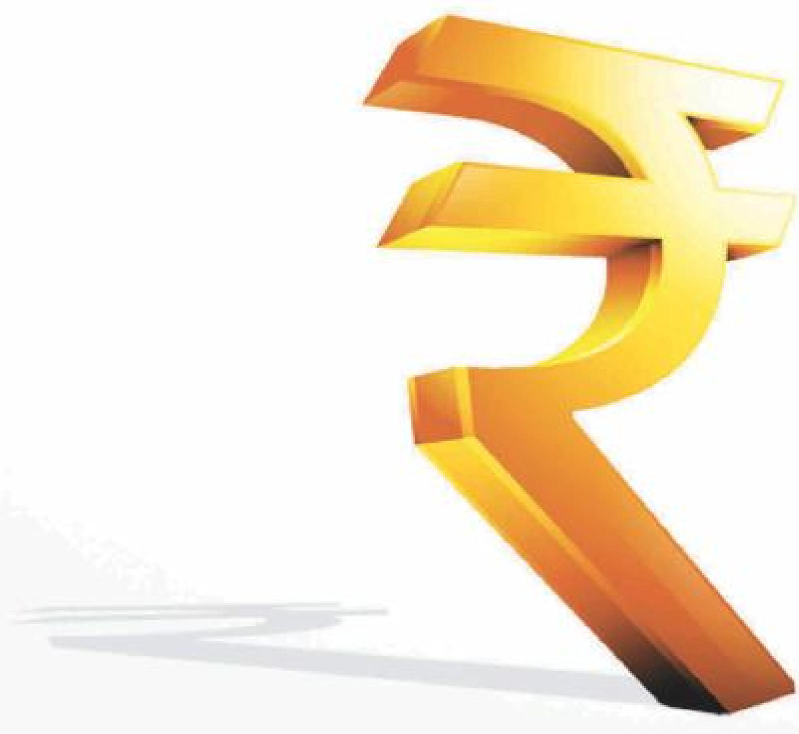
Gist of NCERT

Indian Economy



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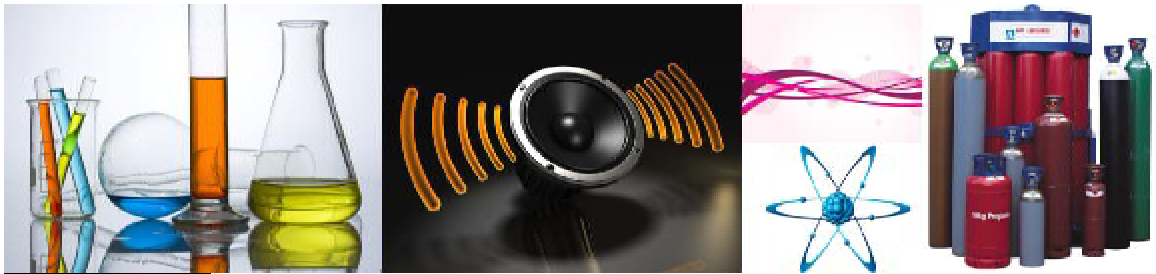

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An Introduction

INTRODUCTION

Economics as a word comes from the Greek: oikos means 'family, household, or estate', and nomos stands for 'custom, law' etc. Thus, "household management" or manage-ment of scarce resources is the essential meaning of economics. Economics encompasses production, distribution, trade and consumption of goods and services. Economic logic is applied to any problem that involves choice under scarcity.

Initially, economics focused on "wealth" and later "welfare". Still later, in recent years, it has given sufficient attention to the study of trade offs- giving up one to gain another. The focus on tradeoffs arises from the traditional assumption that resources are scarce and that it is necessary to choose between competing alternatives. Choosing one benefit implies forgoing another alternative the opportunity cost (cost of foregoing an Opportunity).

Adam Smith, generally regarded as the Father of Economics, author of 'An Inquiry into the Nature' and Causes of the Wealth of Nations (generally known as The Wealth of Nations) defines economics as "The science of wealth." Smith offered another definition, "The Science relating to the laws of production, distribution and exchange."

Definitions in terms of wealth emphasize production and consumption, and do not deal with the economic activities of those not significantly involved in these two processes, for example, children and old people. The belief is that non-productive activity is a cost on society. It meant that man was relegated to the secondary position and wealth was placed above life.

Thus arose the shift in the focus to welfare economics study of man and of human welfare, not of money alone. Economics involves social action connected with the attainment of human well being.

Types of Economics

Economics is usually divided into two main branches:

Microeconomics which examines the economic behavior of individual actors such as consumers, businesses, households etc. to understand how decisions are made in the face of scarcity and what effects they have.

Macroeconomics, which studies the economy as a whole and its features like national income, employment ,poverty, balance of payments and inflation.

The two are linked closely as the behavior of a firm or consumer or household depends upon the state of the national and global economy.

Mesoeconomics

'Mesoeconomics' studies the intermediate level of economic organization in between the micro and the macro economics like institutional arrangements etc.

DIVISION OF ECONOMICS FOCUS

Division of Economics	Focus
Microeconomics	Production/output in individual industries and businesses and consumer and behaviour How much steel How much office space How many cars Consumer behaviour
Macroeconomics	National production/output Gross domestic product Employment Poverty Inflation BOP

There are broadly the following approaches in the mainstream economics. The basis of all the streams is the same: resources are scarce while wants are unlimited (often mentioned as the economic problem).

Keynesian theory of Macro Economics

Keynesian macroeconomics based on the theories of twentieth-century British economist John Maynard Keynes. It says that the state can stimulate economic growth and restore stability in the economy through expansionary policies. For example- through massive programme of spending on infrastructure when the demand is low and growth is negative.

In the recessionary phase that the economies of the western world in particular and rest of the world in general, went through (some are still undergoing the recession) due to 2008 financial crisis, the relevance of Keynes is growing.

The intervention by State is only when the economic cycle turns down and growth slows down or is negative. In normal times, it is the market that drives growth through the force of supply and demand.

Indian government stepped up expenditure with three fiscal stimuli since December 2008 to revive growth. With growth spurting, the gradual and calibrated exit from the stimulus was begun in the 2010-11 Union Budget.

The theories of Keynesian economics were first presented in 'The General Theory of Employment, Interest and Money' (1936).

Neo-liberalism

Neo-liberalism refers to advocacy of policies such as individual liberty, free markets, and free trade. Neo-liberalism "proposes that human well being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade".

Socialist theory of Economics

In distinction to the above, there is the school of socialist economics based on public (State) ownership of means of production to achieve greater equality and give the workers greater control of the means of production. It establishes fully centrally planned economy which is also called command economy - economy is at the command of the State. Private ownership of assets is not allowed. For example, erstwhile USSR, Cuba etc.

Development Economics

Development economics is a branch of economics which deals with economic aspects of the development process, mainly in low-income countries.

Its focus is not only promoting economic growth and structural change but also improving the well being of the population as a whole through health and education and workplace Conditions, whether through public or private channels. The most prominent contemporary development economists are Nobel laureates Amartya Sen and Joseph Stiglitz.

Structural Change

Structural change of an economy refers to a long-term widespread change of a fundamental structure, rather than microscale or short-term change. For example a subsistence economy is transformed into a manufacturing economy, or a regulated mixed economy is liberalized. An insulated and protectionist economy becomes open and globalized. A current structural change in the world economy is globalization.

Green Economics

Green economics focuses on and supports the harmonious interaction between humans and nature and attempts to reconcile the two.

Economic Growth and its Measument Methods

Economic growth is the change- increase or decrease, in the value of goods and services produced by an economy. If it is positive, it means an increase in the output and the income of a country. It is generally shown as the increase in percentage terms of real gross domestic product (GDP adjusted to inflation) or real GDP.

Measuring Growth

Measures of national income and output are used in economics to estimate the value of goods and services produced in an economy. They use a system of national accounts or national accounting. Some of the common measures are Gross National Product (GNP) and Gross Domestic Product (GDP).

National Income Accounting

National income accounting refers to a

set of rules and techniques that are used to measure the national income of a country.

GDP is defined as the total market value of all final goods and services produced within the country in a given period of time- usually a calendar year or financial year.

GDP can be real or nominal. Nominal GDP refers to the current year production of final goods and services valued at current year prices. Real GDP refers to the current year production of goods and service valued all base year prices. Base year prices are Constant prices.

In estimating GDP, only final marketable goods and services are considered. Only their values are added up and they pertain to a given period. When it is compared to the base year figure, the growth levels are Seen.

To explain further, gains from resale are excluded but the services provided by the agents are counted. Similarly, transfer payments (pensions, scholarships etc) are excluded as there is income received but no good or service produced in return. However, not all goods and services from productive activities enter into market transactions. Hence, imputations are made for these non-marketed but productive activities: for example, imputed rental for owner-occupied housing.

Market Price and Factor Cost

Market price refers to the actual transacted price and it includes indirect taxes- custom duty, excise duty, sales tax, service tax etc.

Factor cost refers to the actual cost of the Various factors of production includes government grants and subsidies but it excludes indirect taxes.

Relationship between market price and factor cost.

GNP at factor cost = GNP at market price - indirect taxes + subsidies

GDP at factor cost = GDP at market price - indirect taxes + subsidies

Factor Costs

Factor costs are the actual production costs at which goods and services are produced by the firms and industries in an economy. They are really the costs of all the factors of production such as land, labour, capital, energy, raw materials like steel etc. that are used to produce & given quantity of output in an economy. They are also called factor gate costs (farm gate, firm gate and factory gate) since all the costs that are incurred to produce a given quantity of goods and services take place behind the factory gate i.e. within the walls of the firms, plants etc in an economy.

Transfer Payments

Transfer payment refers to payments made by government to individuals for which there no economic activity is produced in return by these individuals. Examples of transfer are scholarship, pension.

GDP/GNP

Three Approaches

There are three different ways of calculating GDP. The expenditure approach adds consumption, investment, government expenditure and net exports (exports minus imports).

On the other hand, the income approach adds what factors earn: wages, profits, rents etc.

Output approach adds the market value of final goods and services .

The three methods must yield the same results because the total expenditures on goods and services must by definition be equal to the value of the goods and services produced (GNP) which must be equal to the total income paid to the factors that produced these goods and services.

In reality, there will be minor differences in the results obtained from the various methods due to changes in inventory levels. This is because goods in inventory have been produced (and therefore included in GDP), but not yet sold. Similar timing issues can also cause a slight discrepancy between the value of goods produced (GDP) and the payments to the factors that produced the goods, particularly if inputs are purchased on credit.

Final Goods

Final goods are goods that are ultimately consumed rather than used in the production of another good. For example, a car sold to a Consumer is a final good; the components such as tyres sold to the car manufacturer are not; they are intermediate goods used to make the final goods. The same tyres, if sold to a consumer, would be a final goods. Only final goods are included when measuring national income. If intermediate goods were included too, this would lead to double counting; for example, the value of tyres would be counted once when they are sold to the car manufacturer, and again when the car is sold to the consumer.

Only newly produced goods are counted. Transactions in existing goods, such as second-hand cars, are not included, as these do not involve the production of new goods.

GDP

GDP considers only marketed goods. If a cleaner is hired, their pay is included in GDP. If one does the work himself, it does not add to the GDP. Thus much of the work done by women at home- taking care of the children, aged; chores etc which is called 'care economy' is outside the GDP.

Gross means depreciation (wear and tear of machinery in their use) of capital stock is not subtracted. If depreciation is subtracted, it becomes net domestic product.

Calculating the real GDP growth - inflation adjusted GDP growth- allows us to determine if production increased or decreased, regardless of changes in the - inflation and purchasing power of the currency.

Differences between GDP and GNP

The two are related. The difference is that GNP includes net foreign income. GNP adds net foreign investment income compared to GDP. GDP shows how much is produced within the boundaries of the country by both the citizens and the foreigners. It is the market value of all the output produced in the territory of a nation in one year. GDP focuses on where the output is produced rather than who produced it. GDP measures all domestic production, disregarding the producing entities nationalities.

In contrast, GNP is a measure of the value of the output produced by the "nationals" of a country- both with in the geographical boundaries and outside. That is, all the output that the Indian citizens produce in a given year - both within India and all other countries.

For example, there are Indian and foreign firms operating in India. Together what they produce within the Indian geography is the GDP of India. The profits of foreign firms earned within India are included in India's GDP, but not in India's GNP.

In other words, income is counted as part of GNP according to who owns the factors of production rather than where the production takes place. For example, in the case of a German-owned car factory operating in the US, the profits from the factory would be counted as part of German GNP rather than US GNP because the capital used in production (the factory, machinery, etc.) is German owned. The wages of the American workers would be part of US GDP, while the wages of any German workers on the site would be part of German GNP.

GDP is essentially about where production takes place. GNP is about who produces. If it is an open economy with great levels of foreign investment (FD1) and lesser levels of outbound FDI, its GDP is likely to be larger than GNP.

If it is an open economy but more of its nationals tend to move economic activity abroad or earn more from investing abroad compared with non-nationals doing business and earning incomes within its borders, its GNP will be larger than GDP.

If it is a closed economy where nobody leaves its shores, nobody invests abroad, nobody comes in and nobody invests in the country, its GDP will be equal to GNP.

Japan used to belong in the last category. Until the mid-1990s, the difference between Japan's GDP and GNP amounted to less than one percentage point of GDP. With only limited numbers of people doing business abroad, the GDP and GNP were essentially the same thing.

Net National Product

In the production process a country uses machines and equipment. When there is depreciation, we have to repair or replace the machinery. The expenses incurred for this are called the depreciation expenditure. Net National Product is calculated by deducting depreciation expense from gross national product.

NNP = GNP - Depreciation

National Income is calculated by deducting indirect taxes from Net National Product and adding subsidies. National Income (NI) is the NNP at factor cost.

NI = NNP - Indirect Taxes + Subsidies

Per Capita Income

Per Capita Income is per capita GDP: GDP divided by mid year population of the corresponding year.

The growth of GDP at constant price shows an annual real growth.

The real GDP per capita of an economy is often used as an indicator of the average standard of living of individuals in that country, and economic growth is therefore often seen as indicating an increase in the average standard of living.

Aims of Economic Growth

The following aims can be attributed to the study of economic growth:

- When growth is quantified , we can understand whether it is adequate or not for the given goals of the economy.

- We can understand its potential and accordingly set targets.
- We can adjust growth rates for their sustainability.
- We can prevent inflation or deflation to some extent if we see the performance of the economy in quantitative terms.
- We can balance the contributions of the three sectors of the economy and steer the direction of growth towards national goals- away from agriculture to manufacturing as in the case of India in recent years.
- Target appropriate levels of employment creation and poverty alleviation.
- Forecast tax revenues for governmental objectives.
- Corporates can plan their business investments.

Problems for Calculating National Income

The measurement of national income encounters many problems. The problem of double-counting. Though there are some corrective measures, it is difficult to eliminate double-counting altogether. And there are many such problems and the following are some of them.

i. Black Money

Illegal activities like smuggling and unreported incomes due to tax evasion and corruption are outside the GDP estimates. Thus, parallel economy poses a serious hurdle to accurate GDP estimates. GDP does not take into account the 'parallel economy' as the transactions of black money are not registered.

ii. Non-Monetization

In most of the rural economy, considerable portion of transactions Occurs informally and they are called as non-monetized economy- the barter economy. The presence of such non-monetary economy in developing countries keeps the GDP estimates at lower level than the actual.

iii. Growing Service Sector

In recent years, the service sector is growing faster than that of the agricultural and industrial sectors. Many new services like business process outsourcing (BPO) have come up. However, value addition in legal consultancy, health services, financial and business services and the service sector as a whole is not based on accurate reporting and hence underestimated in national income measures.

iv. Household Services

The national income accounts do not include the 'care economy'- domestic work and housekeeping. Most of such valuable work rendered by our women at home does not enter our national accounting.

v. Social Services

It ignores voluntary and charitable work as it is unpaid.

vi. Environmental Cost

National income estimation does not account for the environmental costs incurred in the production of goods. For example, the land and water degradation accompanying the Green revolution in India. Similarly, the climate change that is caused by the use of fossil fuels. However, in recent years, green GDP is being calculated where the environmental costs are deducted from the GDP value and the Green GDP is arrived at.

GDP deflator

GDP Deflator is a comprehensive measure of inflation, implicitly derived from national accounts data as a ratio of GDP at current prices to constant prices. While it encompasses the entire spectrum of economic activities including services, it is available on a quarterly basis with a lag of two months since 1996. Therefore, national income aggregates extensively use WPI for deflating nominal price estimates to derive real price estimates.

The formula used to calculate the deflator is:

GDP deflator = (Nominal GDP / Real GDP) X 100

Dividing the nominal GDP by the GDP deflator and multiplying it by 100 would then give the figure for real GDP, hence deflating the nominal GDP into a real measure.

A price deflator of 200 means that the current-year price of this computing power is twice its base-year price - price inflation. A price deflator of 50 means that the current-year price is half the base year price - price deflation.

Unlike some price indexes, the GDP deflator is not based on a fixed basket of goods and services. It covers the whole economy.

Specifically, for GDP, the "basket" in each year is the set of all goods that were produced domestically, weighted by the market value of the total consumption of each good. Therefore, new expenditure patterns are allowed to show up in the deflator as people respond to changing prices. The advantage of this approach is that the GDP deflator reflects up to date expenditure patterns.

The CSO uses the price indices to reach the base year figure from the current year one. In September 2010, for the first quarterly figure, it made a mistake while applying the deflator- for the GDP by output figure, it used one price index and for the GDP by expenditure number, it used another. It led to huge discrepancy.

Business Cycles

Alternating periods of expansion and decline in economic activity is called business cycle. That is, the ups and downs of the economy. There are four stages in the business cycle: expansion, growth, slowdown and recession. Recession may not follow every time. When recession takes place, it may not be of the same intensity every times. For example, the 2008 global financial meltdown is the deepest since the WW2 and is called the Great Recession. If recession deepens, it is called depression and occurred only once in the last century in I930's. All economies experience economic cycles. Explaining and preventing these fluctuations is one of the main focuses of macroeconomics.

Benefits and Side Effects of Economic Growth

i. The first benefit of economic growth is wealth creation. It helps create jobs and increase incomes.

ii. It ensures an increase in the standard of living, even if it is not evenly distributed.

iii. Government has more tax revenues: fiscal dividend. Economic growth boosts tax revenues and provides the government with extra money to finance spending projects. For example, the flagship programmes of the government like the MGNREGA are a direct result of the tax buoyancy of growth It sets up the positive spiral:

iv. rising demand encourages investment in new capital machinery which helps accelerate economic growth and create more employment.

Economic growth can also have a self-defeating effect:

i. violate the principles of fairness and equity thus setting off social conflicts.
ii. Environmental costs are another disadvantage.

Measure Of Real Progress FOR GDP

Ans. Economic growth is generally taken as the measure of advancement in the standard of living of the country. Countries with higher GNP often score highly on measures of welfare, such as life expectancy. However, there are limitations to the usefulness of GNP as a measure of welfare:

- GDP does not value intangibles like leisure, quality of life etc. Quality of life is determined by many other things than economic goods.
- The impact of economic activity on the environment may be harmful- pollution, climate change, unsustainable growth, ecological refugees, life style diseases etc.
- It only gives average figures that hide stratification. Economic inequality is not revealed by GDP figures
- Condition of poor is not indicated For example, Indian economy grew at 8.9% in the first half of 2010-2011 but the food inflation was over 14% and on a high base causing immiserization of the lower classes.
- Gender disparities are not indicated.
- It does not matter how the increase in wealth takes place- whether by civilian demand or war.
- GDP does not measure the sustainability of growth. A country may achieve a temporarily high GDP by over-exploiting natural resources.

Advantages

The major advantages to using GDP per capita as an indicator of standard of living are that it is measured frequently, widely and consistently. Frequently in that most countries provide information on GDP on a quarterly basis, which allows a user to spot trends more quickly. Widely in that some measure of GDP is available for practically every country in the world, which allows crude comparisons between the standard of living in different countries. And consistently in that the technical definitions used within GDP are relatively consistent between countries, and so there can be confidence that the same thing is being measured in each country.

Disadvantages

The major disadvantage of using GDP as an indicator of standard of living is that it is not, strictly speaking, a measure of standard of living. For instance, in an extreme example, a country which exported 100 per cent of its production would still have a high GDP, but a very poor standard of living.

The argument in favour of using GDP is not that it is a good indicator of standard of living, but rather that (all other things being equal) standard of living tends to increase when GDP per capita increases. This makes GDP a proxy for standard of living, rather than a direct measure of it.

Because of the limitations in the GDP concept, other measures of welfare such as the Human Development Index (HDI), Index of

Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI) and Sustainable National Income (SN1), Gross National Happiness (GNH), Green GDP, natural resource accounting have been suggested.

They are proposed in an attempt to give a more complete picture of the level of well-being and the position with reference to natural resource depletion, but there is no consensus as to which is a better measure than GDP. Some of the above defy quantification. GDP still remains by far the most often-used measure.

Other Measures Used as Alternative to GDP

Some economists have attempted to create a replacements for GDP which attempt to address many of the above criticisms regarding GDP. Other nations such as Bhutan have advocated gross national happiness as a standard of living, claiming itself as the world's happiest nation.

HDI

The UN Human Development Index (HDI) is a standard means of measuring wellbeing. The index was developed in 1990 by the Pakistani economist Mahbub ul Haq, and has been used since 1993 by the United Nations Development Programme in its annual report.

The HDI measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrolment ratio (with one-third weight).
- A decent standard of living, as measured by gross, domestic product (GDP) per capita at purchasing power parity (PPP) in US Dollars.

Each year, UN member states are listed and ranked according to these measures.

India is ranked at 134 among 182 countries on the Human Development Index of the United Nations Development Programme (UNDP) that was released in late 2010. The HDI goes beyond a nation's gross domestic product (GDP) to measure the general well-being of people under a host of parameters, such as poverty levels, literacy and gender-related issues.

HPI

An alternative measure, focusing on the amount of poverty in a country, is the Human Poverty Index. The Human Poverty Index is an indication of the standard of living in a country, developed by the United Nations.

Indicators used are:

- Lifespan
- functional literacy skills
  Long-term unemployment
- Relative poverty ('poverty with reference to the average per capita income).

GPI

The Genuine Progress Indicator (GPI) is a concept in green economics and welfare economics that has been suggested as a replacement metric for gross domestic product (GDP) as a metric of economic growth. Unlike GDP it is claimed by its advocates to more reliably distinguish uneconomic growth - almost all advocates of a GDP would accept that some economic growth is very harmful.

A GPI is an attempt to measure whether or not a country's growth, increased production of goods, and expanding services have actually resulted in the improvement of the welfare (or well-being) of the people in the country.

Green GDP

Green Gross Domestic Product (Green GDP) is an index of economic growth with the environmental consequences of that growth factored in. From the final value of goods and services produced, the cost of ecological degradation is deducted to arrive at Green GDP.

In 2004, Wen Jiabao, the Chinese premier, announced that the green GDP index would replace the Chinese GDP index. But the effort was dropped in 2007 as it was seen that the conventional growth rates were decelerating.

GNH

Gross National Happiness (GNH) is an attempt to define quality of life in more holistic and psychological terms than Gross National Product.

The term was coined by Bhutans former King Jigme Singye Wangchuck in 1972 to indicate his commitment to building an economy that would serve Bhutan's unique culture based on Buddhist spiritual values. While conventional development models stress economic growth as the ultimate objective, the concept of GNH is based on the premise that true development takes place when material and spiritual development occur side by side to complement and reinforce each other. The four dimensions of GNH are the promotion of equitable and sustainable socio-economic development, preservation and promotion of cultural values, conservation of the natural environment, and establishment of good governance.

Natural Resources Accounting

Natural resources are essential for production and consumption, maintenance of life-support systems, as well as having intrinsic value in existence for intergenerational and other reasons. It can be argued that natural capital should be treated in a similar manner to manmade capital in accounting terms, so that the ability to generate income in the future is sustained by using the stock of natural capital judiciously. By failing to account reductions in the stock of natural resources, standard measures of national income do not represent economic growth genuinely. Soil, water and biodiversity are the three basic natural resources.

National Biodiversity Action Plan published by Government of India, Ministry of Environment and Forests in 2008 highlights as an action point the valuation of goods and services provided by biodiversity. More specifically, the Action Plan states : to assign appropriate market value to the goods and services provided by various ecosystems and strive to incorporate these costs into national accounting.

In the Nagoya (Japan) meet in 2010 on biodiversity protection, India declared that it will adopt natural resource accounting from 2012.

In the October 2010 UN biodiversity summit, it was said that the link between economic policy, natural capital and human wellbeing should be understood. There should be global partnership is to mainstream natural resources accounting into economic planning. India, Colombia and Mexico accepted it. This will plug deficiencies in traditional accounting systems. As mentioned above, India's national biodiversity action plan has already incorporated some of these concepts.

Laissez-faire Doctrine

Ans. A market economy is an economic system in which goods and services are traded, with the price being determined by demand and supply.

Laissez-faire is a French phrase meaning "let do, let go, let pass." Its proponents make arguments against government interference with economy and trade. It is synonymous with free market economics. It is generally understood to be a doctrine opposing economic-interventionism by the state beyond the extent which is perceived to be necessary to maintain peace and property rights.

A market economy has no central coordinator guiding its operation, yet theoretically self-organization emerges amidst the complex interplay of supply and demand. Supporters of a market economy generally hold that the pursuit of self- interest is actually in the best interest of society. Adam Smith says:

"By pursuing his own interest (an individual) frequently promotes that of the society more effectually than when he really intends to promote it." (Wealth of Nation).

Adam Smith calls it the invisible hand-the force that combines the individual self interest into a collective social interest. However, as we have seen in the melt down of the western economies since 2008 and as Nobel laueate Joseph Stiglitz commented, invisible hand may not exist.

There are a variety of critics of market as an organizing principle of an economy. These critics range from those who reject markets entirely, in favor of a planned economy, such as that advocated by communism to those who wish to see them regulated to various degrees. One prominent practical objection is the environmental pollution generated. Another is the claim that through the creation of monopolies, markets sow the seeds of their own destruction.

Social Market

Some proponents of market economies believe that government should intervene to prevent market failure while preserving the general character of a market economy.

It seeks an alternative economic system other than socialism and laissez-faire economy, combining private enterprise with measures of the state to establish fair competition, low inflation, low levels of unemployment, good working conditions, and social welfare.

Co-relation between Market Economy and Poverty

Free market economists argue that planned economies and Welfare will not solve poverty problems but only make them worse. They believe that the only way to solve poverty is by creating new wealth. They believe that this is most efficiently achieved through low levels of government regulation and interference, free trade, and tax reform and reduction. Open economy, competition and innovation generate growth and employment.

Advocates of the third way -social market solutions to poverty- believe that there is a legitimate role the government can 'play in fighting poverty. They believe this can be achieved through the creation of social safety nets such as social security and workers compensation.

Most modern industrialized nations today are not typically representative of Laissez-faire principles, as they usually involve significant amounts of government intervention in the economy. This intervention includes minimum wages to increase the standard of living, anti-monopoly regulation to prevent monopolies, progressive income taxes, welfare programs to provide a safety net for those without the capacity to find work, disability assistance, subsidy programs for businesses and agricultural products to stabilize prices - protect jobs within a country, government ownership of some industry, regulation of market. competition to ensure fair standards and practices to protect the consumer and worker, and economic trade barriers in the form of protective tariffs - quotas on imports - or internal regulation favoring domestic industry.

Differencies Between Market Failure and Government Failure

The inability of an unregulated market to achieve allocative efficiency is known as market failure. The main types of market failure are: monopoly, steep inequality, pollution etc. The western economic recession since 2008 is the result of market failure where excessive speculation and borrowings have disoriented the economies with huge human and economic cost.

Government failure is the public sector analogy to market failure and occurs when government does not efficiently allocate goods and/or resources consumers. Just as with market failures, there are many different kinds of government failures. Inefficient use of resources, wastage and retarded economic growth due to government monopolies and regulation are the results of government failure. Often, the performance of the public sector in India is cited to exemplify government failure.

Structural Composition of the Economy

The three-sector hypothesis is an economic theory which divides economies into three sectors of activity: extraction of raw materials (primary), manufacturing (secondary), and services (tertiary).

According to the theory the main focus of an economy's activity shifts from the primary, through the secondary and finally to the tertiary sector. The increase in quality of life, social security, blossoming of education and culture and avoidance of unemployment with reduction of poverty are the effects of such transition.

Countries with a low per capita income are in an early state of development; the main part of their national income is achieved through production in the primary sector. Countries in a more advanced state of development, with a medium national income, generate their income mostly in the secondary sector. In highly developed countries with a high income, the tertiary sector dominates the total output of the economy.

The primary sector of the economy

involves changing natural resources into primary products. Most products from this sector are considered raw materials for other industries. Major businesses in this sector include agriculture, fishing, forestry and all mining and quarrying industries.

Primary industry is a larger sector in developing countries; for instance, animal husbandry is more common in Africa than in Japan.

The secondary sector of the economy includes those economic sectors that create a finished, usable product: manufacturing and construction.

This sector generally takes the output of the primary sector and manufactures finished goods or where they are suitable for use by other businesses, for export, or sale to domestic consumers.

This sector is often divided into light industry and heavy industry.

Light industry is usually less capital intensive than heavy industry, and is more consumer-oriented than business-oriented (i.e., most light industry products are produced for end users rather than as intermediates for use by other - industries). Examples of light industries include the manufacture of clothes, shoes, furniture and household items (e.g. consumer electronics).

Heavy industry means products which are either heavy in weight or in the processes leading to their production. Examples are heavy machinery, big factories, chemical plants, production of construction equipment such as cranes and bulldozers. Alternatively, heavy industry projects can be generalized as more capital intensive or as requiring greater or more advanced resources, facilities or management.

The tertiary sector of economy (also known as the service sector) is defined by exclusion of the two other sectors. Services are defined in conventional economic literature as "intangible or invisible goods". The tertiary sector of economy involves the provision of services to businesses as well as final consumers.

Services may involve-the transport, distribution and sale of goods from producer to a consumer as may happen in wholesaling and retailing, or may involve the provision of a service, such as or entertainment. The service sector consists of the "soft" parts of the economy such as insurance, government, tourism, banking, retail, education, and social services. Examples of service may include retail, insurance, and government. -

The quaternary sector of the economy is an extension of the three-sector hypothesis. It principally concerns the intellectual services: information generation, information sharing, consultation and research and development. It is sometimes incorporated into the tertiary sector but many argue that intellectual services are distinct enough to warrant a separate sector.

The quaternary sector can be seen-as the sector in which companies invest in order to ensure further expansion. Research will be directed into cutting costs, tapping into markets, producing innovative ideas, new production methods and methods of manufacture, amongst others. To many industries, such as the pharmaceutical industry, the sector is the most valuable because it creates future branded products which the company will profit from. This sector evolves in well developed countries and requires a highly educated workforce.

The quinary sector of the economy is the sector suggested by some economists as comprising health, education, culture, research, police, fire service, and other government industries not intended to make a profit. The quinary sector also includes domestic activities such as those performed by stay-at-home parents or homemakers. These activities are not measured by monetary amounts but make a considerable contribution to the economy.

Developing Country

A developing country is a country that has not reached the Western-style standards of democratic governments, free market economies, industrialization, social programs, and human rights guarantees for their citizens.

Countries with more advanced economies than other developing nations, but which have not yet fully demonstrated the signs of a developed country, are grouped under the term newly industrialized countries.

Developed Country

Development entails a modem infrastructure (both physical and institutional), and a move away from low value added sectors such as agriculture and natural resource extraction. Developed countries, in comparison, usually have economic systems based on economic growth in the secondary, tertiary and quaternary sectors and high standards of living.

Newly Industralized Country

The category of newly industrialized country (NIC) is a socioeconomic classification applied to several Countries around the world.

NICs are countries whose economies have not yet reached first world status but have, in a macroeconomic sense, outpaced their developing counterparts Another characterization of NICs is that of nations undergoing rapid economic growth. Incipient or ongoing industrialization is an important indicator of a NIC. In many NICs, social upheaval can occur as primarily rural, agriculture populations migrate to the cities, where the growth of manufacturing concerns and factories can draw many thousands of laborers.

NICs usually share some other common features, including:

- A switch from agriculture to industrial economies, especially in the manufacturing sector.
- An increasingly open-market economy, allowing free trade with other nations in the world.
- Emerging MNCs
- Strong capital investment from foreign countries.

High-income Economy

A High-income economy is defined by the World Bank as a country with a GDP per capita of $11,456 or more. While the term high income may be used interchangeably with "First World" and "developed country," the technical definitions of these terms differ. The term "first world" commonly refers to those prosperous countries that aligned themselves with the U.S. and NATO during the cold war. Several institutions, such as International Monetary Fund (IMF) take factors other than high per capita income into account when classifying countries as "developed" Of "advanced economies" According to the United Nations, for example, some high income countries may also be developing countries. The GCC (Persian Gulf States) Countries, for example, are classified as developing high income countries Thus, a high income Country may be classified as either developed or developing.

The term developed country, or advanced country, is used to categorize countries that have achieved a high level of industrialization in which the tertiary and quaternary sectors of industry dominate. Countries not fitting this definition may referred to as developing countries.

This level of economic development usually translates into a high income per capita and a high Human Development Index (HDI) rating. Countries with high gross domestic product (GDP) per capita often fit the above description of a developed economy. However, anomalies exist when-determining "developed" status by the factor GDP per capita alone.

Least Development Countries

Ans. Least Developed Countries (LDCs or Fourth World countries) are countries which according to the United Nations exhibit the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world. A country is classified as a Least Developed Country if it meets three criteria based on:

- low-income (three-year average GDP per capita of less than US $750, which must exceed $900 to leave the list)
- human resource weakness (based on indicators of nutrition, health, education and adult literacy) economic vulnerability (based on instability, of agricultural production, instability of exports of goods and services and the percentage of population displaced-by natural disasters).

The classification currently applies to 48 countries.

India's Initiatives for Green Acounting

India aims to factor the use of natural resources in its economic growth estimates by 2015 as we seek to underscore the actions it is taking to fight global warming.

Government said the country would seek to make "green accounting" part of government policy on economic growth.

The alternative GDP (Gross Domestic Product) estimates account for the consumption of natural resources as well. This would help find out how much of a natural resource is being consumed in the course of economic growth, how much being degraded and how much being replenished.

It is expected that in future more and more economists are likely to focus their time and energies upon social investment accounting or green accounting ... so that GDP really becomes not gross domestic product but green domestic product.

Green gross domestic product, then or green GDP as outlined above, measures economic growth while factoring in the environmental consequences, or externalities (how those outside a transaction are affected), of that growth. There are methodological concerns — how do we monetize the loss of biodiversity? How can we measure the economic impacts of climate change due to green house gas emissions? While the green GDP has pot yet been perfected as a measure of environmental costs, many countries are working to strike a balance between - green GDP and the original GDP.

Sarkozy's Initiatives for GDP Alternative

The Commission on the measurement of economic performance and social progress was set up at the beginning of 2008 on French government's initiative.

Increasing concerns have been raised since a long time about the adequacy of current measures of economic performance, in particular those based on GDP figures. Moreover, there are broader concerns, about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability.

Reflecting these concerns, the former President Sarkozy has decided to create this Commission, to look at the entire range of issues, Its aim is to identify the limits of GDP as an indicator of economic performance and social progress, to consider additional information required for the production of a more relevant picture etc: The Commission is chaired by Professor Joseph E. Stiglitz. Amartya Sen and Bina Agarwal are also associated with it. The commission gave its report in 2009.

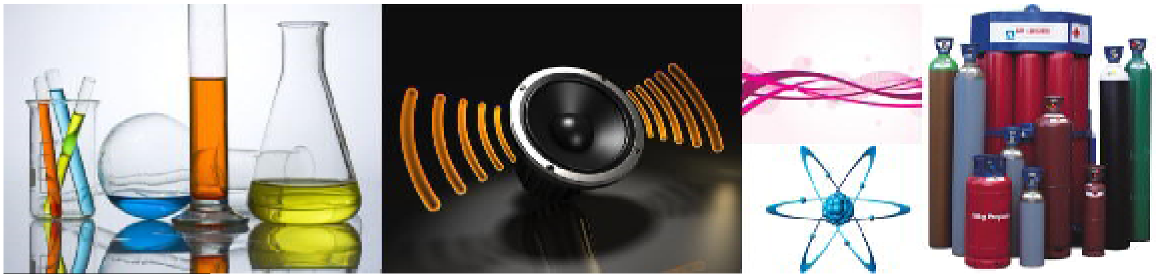
The Stiglitz report recommends that economic indicators should stress well-being instead of production, and for non-market activities, such as domestic and charity work, to be taken into account, Indexes should integrate complex realities, such as crime, the environment and the efficiency of the health system, as well as income inequality. The report brings examples, such as traffic jams, to show that more production doesn't necessarily correspond with greater well-being.

"We're living in one of those epochs where certitudes have vanished.., we have to reinvent, to reconstruct everything," Sarkozy said. "The central issue is [to pick] the way of development, the model of society, the civilization we want to live in."

Stiglitz explained: The big question concerns whether GDP provides a good measure of living standards. In many cases, GDP statistics seem to suggest-that-the economy is doing far better than most citizens' own perceptions. Moreover, the focus on GDP creates conflicts: political leaders are told to maximise it, but citizens also demand that attention be paid to enhancing security, reducing air, water, and noise pollution, and so forth — all of which might lower GDP growth. The fact that GDP may be a poor measure of well-being, or, even of market activity, has, of course, long been recognized. But changes in society and the economy may have heightened the problems, at the same time that advances in economics and statistical techniques may have provided opportunities to improve our metrics.

India GDP Base Year is changed

The Government changed the base year for calculating national income to 2004-05 as against 1999-2000 earlier. The Central Statistical Organisation (CSO) made the changes in early 2010.



2 Sectors of the Indian Economy

An economy is best understood when we study its components or sectors. Sectoral classification can be done on the basis of several criteria. Here three types of classifications are discussed: primary / secondary / tertiary, organised / unorganised; and public / private. It is important to emphasise the changing roles of sectors. This can be highlighted further by drawing attention of the students to the rapid growth of service sector. While elaborating the ideas provided in the chapter, the students may need to be familiarised with a few fundamental concepts such as Gross Domestic Product, Employment etc. Another important issue to be highlighted is about the problems caused by the changes in the roles of sectors.

SECTORS OF ECONOMIC ACTIVITIES

There are many activities that are undertaken by directly using natural resources. Take, for example, the cultivation of son. It takes place within a crop season. For the growth of the Cotton plant, we depend mainly, but not entirely, on natural factors like rainfall, sunshine and climate. The product of this activity, Cotton, is a natural product. Similarly, in the case of an activity like dairy. we are dependent on the biological process of the animals and availability of fodder etc. The product here, milk, also is a natural product Similarly, minerals and ores are also natural products. When we produce a good by exploiting natural resources, it is an activity of the primary sector. Why primary? This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector.

The secondary sector covers activities in which natural products are changed into other forms through manufacturing that we associate with industrial activity. It is the next step after primary. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a factory, a workshop or at home. For example, using cotton fibre from the plant, we spin yarn and weave cloth. Using sugarcane as a raw material, we make sugar or gur. We convert soil into bricks and use bricks to make houses and buildings. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as industrial sector.

After primary and secondary, there is a third category of activities that falls under tertiary sector and is different from the above two. These are activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process.

For example, goods that are produced in the primary or secondary sector would need to be transported by trucks or trains and then sold in wholesale and retail shops. At times, it may be necessary to store these in godowns. We also may need to talk to others over telephone or send letters (communication) or borrow money from banks (banking) to help production and trade. Transport storage communication banking, trade are some examples of tertiary activities Since activities generate services rather than goods the tertiary sector is also called the service sector.

Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works. In recent times, certain new services based on information technology such as internet cafe, ATM booths, call centres, software companies etc have become important.

COMPARING THE THREE SECTORS

The various production activities in the primary, secondary and tertiary sectors produce a very large number of goods and services. Also, the three sectors have a large number of people working in them to produce these goods and services. The next step, therefore, is to see how much goods and services are produced and how many people work in each sector. In an economy there could be one or more sectors which are dominant in terms of total production and employment, while other sectors are relatively small in size. How do we count the various goods and services and know the total production in each sector?

With so many thousands of goods and services produced, you might think this is an impossible task!

To get around this problem, economists suggest that the values of goods and services should be used rather than adding up the actual numbers. For example, if 10,000 kgs of wheat is sold at Rs 8 per kg, the value of wheat will be Rs 80,000. The value of 5000 coconuts at Rs 10 per piece will be Rs 50,000. Similarly, the value of goods and services in the three sectors are calculated, and then added up.

Not every good (or service) that is produced and sold needs to be counted. It makes sense only to include the final goods and services. Take, for instance, a farmer who sells wheat to a flour mill for Rs 8 per kg. The mill grinds the wheat and sells the flour to a biscuit company for Rs 10 per kg. The biscuit company uses the flour and things such as sugar and oil to make four packets of biscuits. It sells biscuits in the market to the consumers for Rs 60 (Rs 15 per packet). Biscuits are the final goods, i.e., goods that reach the consumers.

Why are only 'final goods and services' counted? In contrast to final goods, goods such as wheat and the wheat flour in this example are intermediate goods. Intermediate goods are used up in producing final goods and services. The value of final goods already includes the value of all the intermediate goods that are used in making the final good. Hence, the value of Rs 60 for the biscuits (final good) already includes the value of flour (Rs 10). Similarly, the value of all other intermediate goods would have been included. To count the value of the flour and wheat separately is therefore not correct because then we would be counting the value of the same things a number of times. First as wheat, then as flour and finally as biscuits.

The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year. And the sum of production in the three sectors gives what is called the Gross Domestic Product (GDP) of a country. It is the value of all final goods and services produced within a country during a particular year. GDP shows how big the economy is.

In India, the mammoth task of measuring GDP is undertaken by a central government ministry. This Ministry, with the help of various government departments of all the Indian states and union territories, collects information relating to total volume of goods and services and their prices and then estimates the GDP.

Historical Change in Sectors

Generally, it has been noted from the histories of many, now developed, countries that at initial stages of development, primary sector was the most important sector of economic activity.

As the methods of farming changed and agriculture sector began to prosper, it produced much more food than before. Many people could now take up other activities. There were increasing number of craft persons and traders. Buying and selling activities increased many times.

Besides, there were also transporters, administrators, army etc. However, at this stage, most of the goods produced were natural products from the primary sector and most people were also employed in this sector. Over a long time (more than hundred years), and especially because new methods of manufacturing were introduced, factories came up and started expanding. Those people who had earlier worked on farms now began to work in factories in large numbers.

People began to use many more goods that were produced in factories at cheap rates. Secondary sector gradually became the most important in total production and employment. Hence, over time, a shift had taken place.

This means that the importance of the sectors had changed. In the past 100 years, there has been a further shift from secondary to tertiary sector in developed countries. The service sector has become the most important in terms of total production. Most of the working people are also employed in the service sector. This is the general pattern observed in developed countries.

PRIMARY, SECONDARY AND TERTIARY SECTORS IN INDIA

Rising Importance of the Tertiary Sector in Production Over the thirty years between 1973 and 2003, while production in all the three sectors has increased, it has increased the most in the tertiary sector. As a result, in the year 2003, the tertiary sector has emerged as the largest producing sector in India replacing the primary sector. Why is the tertiary sector becoming so important in India? There could be several reasons.

First, in any country several services such as hospitals, educational institutions, post and telegraph services, police stations, courts, village administrative offices, municipal corporations, defence, transport, banks, insurance companies, etc. are required. These can be considered as basic services.

In a developing country the government has to take responsibility for the provision of these services. Second, the development of agriculture and industry leads to the development of services such as transport, trade, storage and the like, as we have already seen. Greater the development of the primary and secondary sectors, more would be the demand for such services.

Third, as income levels rise, certain sections of people start demanding many more services like eating out, tourism, shopping, private hospitals, private schools, professional training etc. You can see this change quite sharply in cities, especially in big cities. Fourth, over the past decade or so, certain new services such as those based on information and communication technology have become important and essential. The production of these services has been rising rapidly.

However, you must remember that not all of the service sector is growing equally well. Service sector in India employs many different kinds of people. At one end there are a limited number of services that employ highly skilled and educated workers. At the other end, there are a very large number of workers engaged in services such as small shopkeepers, repair persons, transport persons, etc. These people barely manage to earn a living and yet they perform these services because no alternative opportunities for work are available to them. Hence, only a part of this sector is growing in importance. You shall read more about this in the next section.

A remarkable fact about India is that while there has been a change in the share of the three sectors in GDP, a similar shift has not taken place in employment. The primary sector continues to be the largest employer even in the year 2000.

Why didn't a similar shift out of primary sector happen in case of employment? It is because not enough jobs were created in the secondary and tertiary sectors. Even though industrial output or the production of goods went up by eight times during the period, employment in the industry went up by only 2.5 times. The same applies to tertiary sector as well. While production in the service sector rose by 11 times, employment in the service sector rose less than three times.

As a result, more than half of the workers in the country are working in the primary sector, mainly in agriculture, producing only a quarter of the GDP. in contrast to this, the secondary and tertiary sectors produce three-fourth of the produce whereas they employ less than half the people. Does this mean that the workers in agriculture are not producing as much as they could?

What it means is that there are more people in agriculture than is necessary. So, even if you move a few people out, production will not be affected. In other words, workers in agricultural sector are underemployed. For instance, take the case of a small farmer, Laxmi , owning about two hectares of unirrigated land dependent only on rain and growing crops like jowar and arhar. All five members of her family work in the plot throughout the year. Why? They have nowhere else to go for work. You will see that everyone is working, none remains idle, but in actual fact their labour effort gets divided. Each one is doing some work but no one is fully employed.

This is the situation of underemployment, where people are apparently working but all of them are made to work less than their potential. This kind of underemployment is hidden in contrast to someone who does not have a job and is clearly visible as unemployed. Hence, it is also called disguised unemploy-ment.

Now, supposing a landlord, Sukhram, comes and hires one or two members of the family to work on his land. Laxmi's family is now able to earn some extra income through wages. Since you do not need five people to look after that small plot, two people moving out does not affect production on their farm. In the above example, two people may move to work in a factory. Once again the earnings of the family would increase and they would also continue to produce as much from their land.

There are lakhs of farmers like Laxmi in India. This means that even if we remove a lot of people from agricultural sector and provide them with proper work elsewhere, agricultural production will not suffer. The incomes of the people who take up other work would increase the total family income.

This underemployment can also happen in other sectors. For example there are thousands of casual workers in the service sector in urban areas who search for daily employment. They are employed as painters, plumbers, repair persons and others doing odd jobs. Many of them don't find work everyday. Similarly, we see other people of the service sector on the street pushing a cart or selling something where they may spend the whole day but earn very little. They are doing this work because they do not have better opportunities.

How to Create More Employment?

From the above discussion, we can see that there continues to be considerable underemployment in agriculture. There are also people who are not employed at all. In what ways can one increase employment for people? Let us look at some of them.

Take the case of Laxmi with her two-hectare plot of un-irrigated land. The government can spend some money or banks can provide a loan, to construct a well for her family to irrigate the land. Laxmi will then be able to irrigate her land and take a second crop, wheat, during the rabi season. Let us suppose that one hectare of wheat can provide employment to two people for 50 days (including sowing, watering, fertilizer application and harvesting). So, two more members of the family can be employed in her own field. Now suppose a new dam is constructed and canals are dug to irrigate many such farms. This could lead to a lot of employment generation within the agricultural sector itself reducing the problem of underemployment.

Now, suppose Laxmi and other farmers produce much more than before. They would also need to sell some of this. For this they may be required to transport their products to a nearby town. If the government invests some money in transportation and storage of crops, or makes better rural roads so that mini-trucks reach everywhere several farmers like Laxmi, who now have access to water, can continue to grow and sell these crops. This activity can provide productive employment to not just farmers but also others such as those in services like transport or trade.

Laxmi's need is not confined to water alone. To cultivate the land, she also needs seeds, fertilisers, agricultural equipments and pumpsets to draw water. Being a poor farmer, she cannot afford many of these. So she will have to borrow money from moneylenders and pay a high rate of interest. If the local bank gives her credit at a reasonable rate of interest, she will be able to buy all these in time and cultivate her land. This means that along with water, we also need to provide cheap agricultural credit to the farmers for farming to improve.

Another way by which we can tackle this problem is to identify, promote and locate industries and services in semi-rural areas where a large number of people may be employed. For instance, suppose many farmers decide to grow arhar and chickpea (pulse crops). Setting up a dal mill to procure and process these and sell in the cities is one such example. Opening a cold storage could give an opportunity for farmers to store their products like potatoes and onions and sell them when the price is good. In villages near forest areas, we can start honey collection centres where farmers can come and sell wild honey. It is also possible to set up industries that process vegetables and agricultural produce like potato, sweet potato, rice, wheat, tomato, fruits, which can be sold in outside markets. This will provide employment in industries located in semi-rural areas and not necessarily in large urban centres.

Do you know that in India there are about 200 million children in the school-going age group? Out of this, only about two-thirds are attending schools. The rest are not— they may be at home or many of them may be working as child labourers. If these children are to attend schools, we will require more buildings, more teachers and other staff. A study conducted by the Planning Commission estimates that nearly 20 lakh jobs can be created in the education sector alone. Similarly, if we are to improve the health situation, we need many more doctors, nurses, health workers etc. to work in rural areas. These are some ways by which jobs would be created and we would also be able to address the important aspects of development.

Every state or region has potential for increasing the income and employment for people in that area. It could be tourism, or regional craft industry, or new services like IT. Some of these would require proper planning and support from the government. For example, the same study by the Planning Commission says that if tourism as a sector is improved, every year we can give additional employment to more than 35 lakh people.

We must realise that some of the suggestions discussed above would take a long time to implement. For the short-term, we need some quick measures. Recognising this, the central government in India recently made a law implementing the Right to Work in 200 districts of India. It is called National Rural Employment Guarantee Act 2005 {NREGA 2005). Under NREGA 2005, all those who are able to, and are in need of, work have been guaranteed 100 days of employment in a year by the government. he government fails in its duty to provide employment, it will give unemployment allowances to the people. The types of work that would in future help to increase the production from land will be given preference under the Act.

DIVISION OF SECTORS AS ORGANISED AND UNORGANISED

Let us examine another way of classifying activities in the economy. This looks at the way people are employed. What are their conditions of work? Are there any rules and regulations that are followed as regards their employment Kanta works in the organised sector. Organised sector covers those enterprises or places of work where the terms of employment are regular and therefore, people have assured work. They are registered by the government and have to follow its rules and regulations which are given in various laws such as the Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shops and Establishments Act etc. It is called organised because it has some formal processes and procedures. Some of these people may not be employed by anyone but may work on their own but they too have to register themselves with the government and follow the rules and regulations.

Workers in the organised sector enjoy security of employment. They are expected to work only a fixed number of hours. If they work more, they have to be paid overtime by the employer They also get several other benefits from the employers. What are these benefits? They get paid leave, payment during holidays, provident fund, gratuity etc. They are supposed to get medical benefits and, under the laws, the factory manager facilities like drinking water and a safe working environment. When they retire, these workers get pensions as well.

In contrast, Kamal works in the unorganised sector. The unorgariised sector is characterised by small and scattered units which are largely outside the control of the government. There are rules and regulations but these are not followed. Jobs here are low-paid and often not regular. There is no provision of overtime, paid leave, holidays, leave due to sickness etc. Employment is not secure. People can be asked to leave without any reason. When there is less work, such as during some seasons, some people may be asked to leave. A lot also depends on the whims of the employer. This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street or doing repair work. Similarly, farmers work on their own and hire labourers as and when they require.

How to Protect Workers in the Unorganised Sector?

The organised sector offers jobs that are the most sought-after. But the employment opportunities in the organised sector have been expanding very slowly. It is also common to find many organised sector enterprises in the unorganised sector. They adopt such strategies to evade taxes and refuse to follow laws that protect labourers.

As a result, a large number of workers are forced to enter the unorganised sector jobs, which pay a very low salary. They are often exploited and not paid a fair wage. Their earnings are low and not regular. These jobs are not secure and have no other benefits.

Since the 1990s, it is also common to see a large number of workers losing their jobs in the organised sector. These workers are forced to take up jobs in the unorganised sector with low earnings. Hence, besides the need for more work, there is also a need for protection and support of the workers in the unorganised sector.

In the rural areas, the unorganised sector mostly comprises of landless agricultural labourers, small and marginal farmers, sharecroppers and artisans (such as weavers, blacksmiths, carpenters and goldsmiths). Nearly 80 per cent of rural households in India are in small and marginal farmer category. These farmers need to be supported through adequate facility for timely delivery of seeds, agricultural inputs, credit, storage facilities and marketing outlets.

In the urban areas, unorganised sector comprises mainly of workers in small-scale industry, casual workers in construction, trade and transport etc., and those who work as street vendors, head load workers, garment makers, rag pickers etc. Small-scale industry also needs government's support for procuring raw material and marketing of output. The casual workers in both rural and urban areas need to be protected.

We also find that majority of workers from scheduled castes, tribes and backward communities find themselves in the unorganised sector. Besides getting the irregular and low paid work, these workers also face social discrimination. Protection and support to the unorganised sector workers is thus necessary for both economic and social development.

SECTORS IN TERMS OF OWNERSHIP: PUBLIC AND PRIVATE SECTORS

Another way of classifying economic activities into sectors could be on the basis of who owns assets and is responsible for the delivery of services. In the public sector, the government owns most of the assets and provides all the services. In the private sector, ownership of assets and delivery of services is in the hands of private individuals or companies. Railways or post office is an example of the public sector whereas companies like Tata Iron and Steel Company Limited (TISCO) or Reliance Industries Limited (RIL) are privately owned.

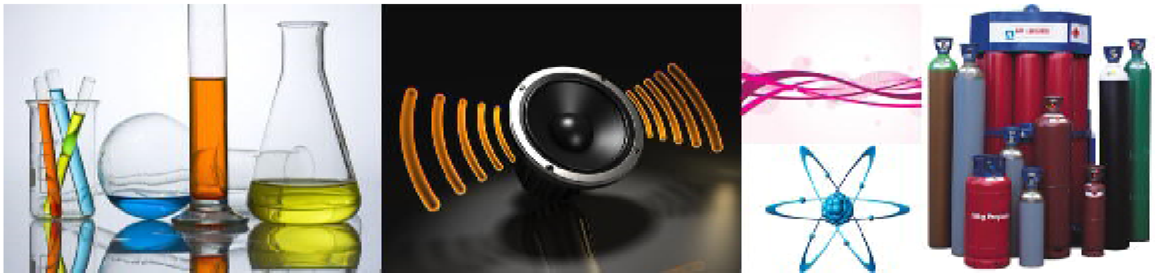
Activities in the private sector are guided by the motive to earn profits. To get such services we have to pay money to these individuals and companies. The purpose of the public sector is not just to earn profits. Governments raise money through taxes and other ways to meet expenses on the services rendered by it. Modern day governments spend on a whole range of activities. What are these activities? Why do governments spend on such activities? Let's find out.

There are several things needed by the society as a whole but which the private sector will not provide at a reasonable cost. Why? Some of these need spending large sums of money, which is beyond the capacity of the private sector. Also, collecting money from thousands of people who use these facilities is not easy. Even if they do provide these things they would charge a high rate for their use. Examples are construction of roads, bridges, railways, harbours, generating electricity, providing irrigation through dams etc. Thus, governments have to undertake such heavy spending and ensure that these facilities are available for everyone. There are some activities, which the government has to support. The private sector may not continue their production or business unless government encourages it. For example, selling electricity at the cost of generation may push up the costs of production of industries. Many units, especially small-scale units, might have to shut down. Government here steps in by producing and supplying electricity at rates which these industries can afford. Government has to bear part of the cost.

Similarly, the government in India buys wheat and rice from farmers at a 'fair price'. This it stores in its god owns and sells at a lower price to consumers through ration shops. The government has to bear some of the cost. In this way, the government supports both farmers and consumers.

There are a large number of activities which are the primary responsibility of the government. The government must spend on these. Providing health and education facilities for all is one example. Running proper schools and providing quality education, particularly elementary education, is the duty of the government. India's size of illiterate population is one of the largest in the world.

Similarly, we know that nearly half of India's children are malnourished and a quarter of them are critically ill. The infant mortality rate of Orissa (87) or Madhya Pradesh (85) is higher than that of the poorest regions of the world such as the African countries. Government also needs to pay attention to aspects of human development such as availability of safe drinking water, housing facilities for the poor and food and nutrition, It is also the duty of the government to take care of the poorest and most ignored regions of the country through increased spending in such areas.



3

Economy Planning

PLANNED ECONOMY

Planned economy is one in which the state owns (partly or wholly) and directs the economy. While such a role is assumed by the State in almost every economy, in planned economies, it is pronounced: for example in communist and socialist countries- former USSR and China till the 1970's. In such a case a planned economy is referred to as command economy or centrally planned economy or command and control economy. In command economies, state does the following

- Control all major sectors of the economy
- Legislate on their use and about the distribution of income
- State decides on what should be produced and how much; sold at what price
- Private property is not allowed

Market economy

In a market economy, it is the opposite- state has a minimal role in the management of the economy- production, consumption and distribution decisions are predominantly left to the market. State plays certain role in redistribution. State is called the laissez faire state here. It is a French phrase literally meaning "Let do."

Indicative plan

Indicative plan is one where there is a mixed economy with State and market playing significant roles to achieve targets for growth that they together set. It is operated under a planned economy but not command economy.

Difference between Planned Economy & Command Economy

The difference between planned economy and command economy is that in the former there may be mixed economy and while in the latter Government owns and regulates economy to near monopolistic limit.

Command economies were set up in China and USSR, mainly for rapid economic growth and social and economic justice but have been dismantled in the last two decades as they do not create wealth sustainably and are not conducive for innovation and efficiency. Cuba and North Korea are still command economies.

An overview of History of Economic Planning in India

India being devastated economically after more than two centuries of colonial exploitation resulting in chronic poverty. Eradication of poverty was the driving force for the formulation of various models of growth before Independence.

In 1944 leading businessmen and industrialists (including Sir Purshotamdas Thakurdas, JRD Tata, GD Birla and others) put forward "A Plan of Economic Development for India" -popularly known as the 'Bombay Plan'. It saw India's future progress based on further expansion of the textile and consumer industries already flourishing in cities like Bombay and Ahmedabad. It saw an important role the State in post-Independent India: to provide infrastructure, invest in basic industries like steel, and protect Indian industry from foreign competition.

Visionary engineer Sir Mokshagundam Visvesvarayya pointed to the success of Japan and insisted that 'industries and trade do not grow of themselves, but have to be willed, planned and systematically developed' — in his book titled "Planned Economy for India" (1934) Expert economists and businessmen were to do the planning. The goal was poverty eradication through growth.

The Indian National Congress established a National Planning Committee under the chairmanship of Jawaharlal Nehru. It (1938) stated the objective of planning for development was to ensure an adequate standard of living for the masses, in other words, to-get rid of the appalling poverty of the people". It advocated heavy industries that were essential both to build other industries, and for Indian self- defence; heavy industries had to be in public ownership, for both redistributive and security purposes; redistribution of land away from the big landlords would eliminate rural poverty.

During the 1940's, the Indian Federation of Labour published its People's Plan by MN Roy that stressed on employment and wage goods. SN Agarwala, follower of Mahatma Gandhi published Gandhian Plan that emphasized on decentralization; agricultural development; employment; cottage industries etc.

Main Goals of Indian Planning

After Independence in 1947, India launched the five year plans for rapid growth.

Planning has the following long term goals

- Growth
- Modernization
- Self-reliance and
- Social justice

Economic growth is the increase in value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP- real means adjusted to inflation. Growth measures quantitative increase in goods and services.

Economic development refers to growth that includes redistributive aspects and social justice. GDP shows growth and not welfare and human development aspects like education, access to basic amenities, environmental quality, freedom, or social justice. Economic growth is necessary for development but not sufficient.

Growth is expected to spread to all sections and regions; raise resources for the Government to spend on socio-economic priorities etc. It takes a long time for growth to trickle down to all people and regions. Therefore, State plans-for an expeditious process of inclusive growth.

Modernization is improvement in technology. It is driven by innovation and investment in R & D. Education is the foundation of modernization. The more modernized the economy, the greater the value created by it.

Self-reliance means relying on the resources of the country and not depending on other countries and the MNCs for investment and growth. India embarked on the goal partly due to the colonial experience and partly due to the goal of orienting growth to development and poverty eradication. Nehru-Mahalanobis model of growth that closed Indian economy and relied on basic industries is the main plank for self-reliance.

The term self-reliance should not be confused with self-sufficiency — the former means depending on resources of the country and avoid dependence on external flows; the latter means that the country has all the resources it needs. No country can be self-sufficient.

Social justice means inclusive and equitable growth where inequalities are not steep and benefits of growth reach all- rural-urban, man-woman; caste divide and inter-regional divides are reduced.

While the above four are the long term goals of the planning process, each five year plan has specific objectives and priorities.

HISTORY OF PLANNING

First Plan (1951-56)

The First Plan stressed more on agriculture, in view of large scale import of food grains and inflationary pressures on the economy. Other areas of emphasis were power and transport. The annual average growth rate during the First Plan was estimated as 3.61% as against a target of 2.1%. Renowned economist KN Raj, who died in 2010 was one of the main architects of India's first five-year plan.

Second Plan (1956-61)

With agricultural targets of previous plan achieved, major stress was on the establishment of heavy industries. Rate of investment was targeted to increase from 7% to 11%. The Plan achieved a more than targeted growth rate of 4.32%. This Plan envisaged to give a big push to the economy so that it enters the take off stage It was based on Nehru-Mahalanobis model self-reliance and basic-industry driven growth.

Third Plan (1961-66)

It tried to balance industry and agriculture. The aim of Third Plan was to establish a self sustaining economy. For the first lime, India resorted to borrowing from IMF, Rupee was also devalued for the first time in 1966. India's conflict with Pakistan and repeated droughts also contributed in the failure of this Plan.

Annual Plans

As the Third Plan experienced difficulties on the external front (war with China in 1962 and Pakistan in 1965); and the economic troubles mounted on the domestic front- inflation, floods, forex crisis- the Fourth Plan could not be started from 1966. There were three annual plans till 1969. This period is called plan holiday that is when five year plans are not implemented. The Annual Plans were: 1966-67, 1967-68 and 1968-69.

Fourth Plan (1969-74)

The main objective of this Plan was growth with stability. The Plan laid special emphasis on improving the condition of the under-privileged and weaker sections through provision of education and employment. Reducing the fluctuations in agricultural production was also a point of emphasis of this Plan. The Plan aimed at a target growth of 5.7% and the achievement against this was 3.2 1%.

Fifth Plan (1974-79)

The main objective of the Plan was Growth for Social Justice. The targeted growth rate was 4.4% and we achieved 4.8%. It was cut short by the Janata Party that came to power in 1977.

Sixth Plan (1980-1985)

Removal of poverty was the foremost objective of Sixth Plan.

Another area of emphasis was infrastructure, which was to be strengthened for development of both industry and agriculture. The achieved growth rate of 5.7% was more than the targeted one.

Direct attack on poverty was the main stress of the Plan.

Seventh Plan (1985-90)

This Plan stressed on rapid growth in food-grains production and increase in employment opportunities. The growth rate of 5.81% achieved in this Plan was more than the targeted one. The plan saw the beginnings of liberalization of Indian economy.

The 8th Plan could not start in 1990 due to economic crisis and political instability. There were two annual plans- plan holiday.

Eighth Plan (1992-1997)

This Plan was formulated keeping in view the process of economic reforms and restructuring of the economy. The main emphasis of this Plan were

- to stabilize the adverse balance of payment scenario sustainably
- improvement in trade and current account deficit
- human development as main focus of planning.

It was indicative plan for the first time. The Plan was formulated in a way so as to manage the transition from a centrally planned economy to market led economy. The targeted annual average rate of growth of the economy during Eighth Plan was 5.6%. Against this, we achieved an average annual growth of 6.5%.

The Plan was based on Rao-Manmohan Singh model of liberalization.

Ninth Five Year Plan (1997-2002)

The salient features of the Ninth Five Year Plan are a target annual average growth rate of 6.5 per cent for the economy as a whole, and a growth rate of 3.9 per cent for agriculture sector, among others. The key strategies envisaged to realise this target rest on attaining a high investment rate of 28.2 per cent of GDP at market prices. The domestic saving rate, which determines the sustainable level of investment, is targeted at 26.1 per cent of the GDP. Care has been taken to ensure achievement of a sustainable growth path in terms of external indebtedness as well as fiscal stability. Rate of growth achieved was 5.4%

Tenth Plan

Growth Performance in the Five Year Plans (per cent per annum).

	Target	Actual
First Plan (1951-56)	2.1	3.61
Second Plan (1956-61)	4.5	4.32
Third Plan (1961-66)	5.6	2.38
Fourth Plan (1969-74)	5.7	3.21
Fifth Plan (1974-79)	4.4	4.80
Sixth Plan (1980-85)	5.2	5.69
Eighth Plan (1992-97)	5.0	6.7
Ninth Plan (1997-2002)	6.5	5.35
Tenth Plan (2002-2007)	8%	7.8%
Eleventh Plan (2007-12)	8.1 (revised 2010)	

The economy is expected to expand by 9% per cent hi 2010-l1 having achieved 8.9% real growth in the first half of 2010-2011. it may rise to 10 per cent in the terminal year of the 11th Plan. Government set an average annual growth target of 9 per cent for the 11th Plan — beginning with 8.5 per cent in the first year and closing with 10 per cent in 2011-12. The MTA document said the economy exceeded expectations in 2007-08, with a growth rate of 9 per cent, but the momentum was interrupted in 2008-09 because of the global financial crisis. Following the global meltdown, the growth rate slipped to 6.7 per cent in 2008-09 from over 9 per cent in the preceding three years. In the year 2009-10, the growth rate was 7.6%.

Function of Planning Commission

The Planning Commission was constituted in March, 1950 by a Resolution of the Government of India, and works under the overall guidance of the National Development Council. The Planning Commission consults the Central Ministries and the State Governments while formulating Five Year Plans and Annual Plans and also oversees their implementation. The Commission also functions as an advisory body at the apex level.

The 1950 resolution setting up the Planning Commission outlined its functions as to:

- Make an assessment of the material, capital and human resources of the counts, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirement;
- Formulate a Plan for the most effective and balanced utilisation of country's resources;
- On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
- Indicate the factors which are-tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan;
- Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;

- Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
- Make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of prevailing economic conditions, current policies, measures and development programmes or an examination of such specific problems as may be referred to it for advice by Central or State Governments.

Organisational Structure of Planning Commission

The Prime Minister is the ex officio Chairman of the Planning Commission. Deputy Chairperson enjoys the rank of a cabinet minister. A member of the Planning Commission enjoys the rank of a Minister of State in the Union Government. Cabinet Ministers with certain important portfolios act as part-time members.

The Deputy Chairman and the full time Members of the Planning Commission function as a composite body in the matter of detailed plan formulation. They provide advice and guidance to the subject Divisions of the Commission in the various exercises undertaken for the formulation of Approach to the Five Year Plans and Annual Plans. Their expert guidance is also available to the subject Divisions for monitoring and evaluating the Plan programmes, projects and schemes.

The Planning Commission functions through several-technical subject Divisions. Each Division is headed by a Senior Officer designated as Pr. Adviser / Adviser / Addl. Adviser/Jt. Secretary/Jt. Adviser.

Planning Commission Divisions

- The various Divisions in the Commission fall under two broad categories:
- General Divisions which are concerned with aspects of the entire economy; and
- Subject Divisions which are concerned with specified fields of development.

The General Divisions functioning in the Planning Commission are:

- Development Policy Division,
- Financial Resources Division,
- International Economics Division,
- Labour, Employment and Manpower Division,
- Perspective Planning Division,
- Plan Coordination Division,
- Project Appraisal and Management Division,
- Socio-Economic Research Unit,
- State Plan Division, including Multi Level Planning, Border Area Development Programme, Hill Area Development and North Eastern Region (NER), and
- Statistics and Surveys Division,
- Monitoring Cell

The Subject Divisions are:

- Agriculture Division,
- Backward Classes Division,
- Communication & Information Division,
- Education Division,
- Environment and Forests Division,

- Health & Family Welfare Division,
- Housing, Urban Development & Water Supply Division,
- Industry & Minerals Division,
- Irrigation & Command Area Development Division,
- Power & Energy Division (including Rural Energy, Non-Conventional Energy Sources and Energy Policy Cell)
- Rural Development Division,
- Science & Technology Division,
- Social Welfare & Nutrition Division, Transport Division,
- Village & Small Industries Division, and
- Western Ghats Secretariat.

The Programme Evaluation Organisation undertakes evaluation studies to assess the impact of selected Plan Programmes / Schemes in order to provide useful feedback to planners and implementing agencies.

The Commission is a corner-stone of our federal structure, a think-tank; helps to balance the priorities and expenditures of the Ministries of the Union Government throws up ideas on policies for structural and perspective changes; and is a reservoir of research."

Relevance of Planning in India

There has been a national debate about the relevance of planning in the era of liberalization where the state controls and regulations are dismantled to a great extent and market forces are given larger role. The investment of the government for the five year plans is also on decline. The trend began in the 7th plan and strengthens into the Eleventh Plan.

It is true that the quantitative aspects of planning in terms of control over economy are being selectively phased out and the nature of planning process is undergoing a qualitative change. Planning is important for the following reasons in the era of liberalization

In a federal democracy like ours, the principal task of planning is to evolve a shared vision among not only the federal units but also among other economic agents so that the efforts of all the actors become convergent towards the national priorities, the role of planning is to develop a common policy stance for center and states. Also, the task of federal policy coordination is central to Indian Planning. For example, the need to invite foreign investment in infrastructure areas like power need center — state coordination as the necessary legislation and administrative changes involve both.

While the growth process can be made the responsibility of the corporate sector to a greater degree, its direction and distribution are to be steered by planned public intervention so that regional imbalances are reduced and socio economic inequities are set right. For example, directing the growth of the large industry into the backward areas and technology intensive areas to realize national goals.

The nature of instruments available to planners in the implementation has changed. Quantitative Controls have yielded place to qualitative ones .The planning process has to focus on the need for planning for policy.

Planning at the grass roots level that is participatory is very crucial for- improving the delivery systems and proper use of the resources. The role of the government is thus to facilitate participatory planning.

Environmental priorities are a major concern of planning

Planning is necessary for the sectors like energy, communication, transport and so on as private sector needs to be guided into the national plan.

In the era of globalization where corporates are not expected to plan beyond the growth of a particular unit, the role of safeguarding national interest is that of planning by the State. For example, being subjected to various discriminative trade practices by EU, USA and so on, the Indian farmers, manufacturers and exporters have to fight sophisticated battles in the WTO for which the legal services and information and building up bargaining power are best provided by the State.

Thus, planning continues to be relevant and ever more so for the following reasons

- Federal cooperation and coordination
- Equitable growth
- Environment friendly development
- Defending national interest in the age of globalization
- Inter-sectoral balance in growth

Changing role of Planning Commission

From a highly centralized planning system, the Indian economy is gradually moving onwards indicative planning where hard planning is no longer undertaken. The role of the Planning Commission accordingly changes. The Commission concerns itself with the building of a long term strategic Vision of the future and decide on priorities of nation. It works out sectoral targets and provides promotional stimulus to the economy to grow in the desired direction.

Planning Commission plays an integrative role in evolving a national plan in critical areas of human and economic development. In the social sector, Planning Commission helps in schemes which require coordination and synergy like rural health, drinking water, rural energy needs, literacy and environment protection.

When planning in a vast federal country like India involves multiplicity of agencies, a high powered body like the PC can help in evolution of an integrated approach for better results at much lower costs.

In our transitional economy Planning Commission attempts to playa systems change role and provide consultancy within the Government for developing better systems. It has to ensure smooth management of the change and help in creating a culture of high productivity and efficiency in the Government

In order to spread the gains of experience more widely, Planning Commission also plays an information dissemination role.

With the emergence of severe constraints on available budgetary resources, the resource allocation system between the States and Ministries of the Central Government is under strain. This requires the Planning Commission to play a mediatory and facilitating role, keeping in view the best interest of all concerned.

Do you think that Planning of India Emerged as the System Reform Commission?

There has been a significant change in the role of the PC since its inception in 1950. In the beginning, Planning Commission was all powerful and had the final say and the veto over every aspect — related to growth and socio-economic development- of the functioning of the Union Ministries and the State Governments. The manner of raising and utilising resources; specific allocations to particular schemes and programmes, location of enterprises, expansion and reduction of capacities, application of technologies; sources of supplies, modalities of implementation, priorities, phasing, pricing, targets and time-frames, nature of the instrumentalities, qualifications and strength of personnel of organisations, staff emoluments etc.

Since 1991, India adopted the indicative planning model, away from the kind of centralised planning on the Soviet model envisaged by Jawaharlal Nehru. Now Ministries and Departments, as well as the corporate entities in the private sector, enjoy a lot of functional, financial and operational autonomy.

In the era of liberalisation, the economic players should properly be left to decide for themselves what they consider to be the appropriate courses of action on the various issues coming up before them, whether they relate to policies, schemes or investments.

The government intends to convert the Planning Commission into a think-tank to generate original ideas in the very broad domain of economic policy for the government to then act on. It will also be the government agency responsible for acting as an interface with other independent think-tanks and NGOs. The PM would like the commission to engage more directly with the "polity", presumably with various ministries in the Central and state governments, and be able to persuade them to implement certain ideas or "plans" generated by the government's own think tank. That isn't radically different from its existing role the Planning Commission has few direct powers of execution in any case and must rely on the power of persuasion to sell its ideas to the Centre and states.

Interestingly enough, the New role sought for the Planning Commission seems to be very similar to the role played by the National Advisory Council, which also generates ideas within, coordinates with NGOs and civil society and then tries to "persuade" the government to act. NAC's focus so far has been social sectors whereas a systems reforms commission can take on a broader gambit of issues, including public finances, infra-structure and so on.

The government's move to revamp and gradually transform the Planning Commission into a System Reforms Commission is a major step that can make the institution more relevant to a market economy. The idea is to metamorphose the plan panel from a reactive agency into a strategic thinking group, which maps out risks and opportunities by focusing on issues.

The shrinking role of the government in mobilising and controlling investments has pushed the Planning Commission to focus more on issues related to enforcing fiscal discipline in the central and state governments, including in the various ministries, departments and public sector enterprises.

According to Arun Maira, PC member, the Planning Commission will gradually transform itself into a Systems Reforms Commission for resolving the systemic problems of the 21st Century over the next two-three years as desired by Prime Minister Manmohan Singh. It will restructure itself to serve three essential functions: build a larger network around its members with think tanks and opinion makers, produce thought papers at a faster pace and communicate more lucidly with polity.

National Development Council & its Functions

The National Development Council is not a Constitutional body nor a statutory body (not set up by an Act of the Parliament). Union Cabinet set up the NDC in 1952 with the following functions:

- To prescribe guidelines for the formulation of the national plan.
- To consider the national plans formulated by the Planning Commission.
- To assess the resources for the plan and recommend a strategy for mobilizing the resources.
- To consider important questions of socio-economic policy affecting development of the nation.
- To review the progress of the five year plan mid-course and suggest measures for achieving the original targets.

NDC is headed by the Prime Minister of India and comprising of all Union Cabinet Ministers, Chief Ministers of all the States and Administrators of Union Territories and Members of the Planning Commission. Ministers of State with independent charge are also invited to the deliberations of the Council.

The National Development Council (NDC) has a special role in our federal polity. It is the apex body for decision making and deliberations on development matters. It has the explicit mandate to study and approve the Approach Plan to the Five year Plans and the Five Year Plan documents. The mid-term reviews of the Five year Plans are considered by the NDC. In fact, without the NDC approving, the Five Year Plan does not come into effect.

The CMP of the UPA Government (2004) says that NDC will meet at least three times in a year and in different state capitals. It will be developed as an effective instrument of cooperative federalism.

Mixed Economy

A mixed economy combining features of both capitalist market economies and socialist command economies. Thus, there is a regulated private sector (the regulations have decreased since liberalisation) and a public sector controlled almost entirely by the government. The public sector generally covers areas which are deemed too important or not profitable enough for the private Sector.

Financial Resources for the Five year Plans

The resources for the Plan come from

- Central budget
- State Budgets
- PSEs
- Domestic private sector and
- FDI

Resources of the Centre consist of both budgetary resources including external assistance routed through the budget and the Internal & Extra Budgetary Resources (IEBR) of Central Public Sector Enterprises (CPSEs). The quantum of budgetary resources if the Centre which is available for providing overall budgetary support to the plan is divided into two parts viz, budgetary support for Central Plan (including U.Ts without Legislature) and central Assistance for States' Plans (including U.Ts with Legislature). A part of the budgetary resources allocated as budgetary support for the Central Plan is used for providing necessary support to CPSEs.

GBS is the amount from the central Budget that goes to fund the plan investments during the plan period.

Achievements of Planning

In the last about 60 years since India became a Republic, the National Income has increased many times. Today, India is the third largest economy in Asia with about \$1.4 trillion GDP after China and Japan is the 11th largest economy in the world. India is the fourth largest in the world as measured by purchasing power parity (PPP), with a gross domestic product (GDP) of about \$4 trillion- USA, China, Japan, India.

In the face of global recession, India posted 6.7% rate of growth in 2008-09 and 7.6% in 2009-10 and is the second fastest growing major economy after China. The first half of 2010-11 saw the growth rate at 8.9%.

Poverty dropped to about 20% of the population- the criterion used is monthly consumption of goods valued less than Rs. 211.30 per capita for rural areas and Rs. 454.11 for urban areas (2006) Social indicators improved though there is a long way to go- IMR, MMR, literacy, disease eradication etc. The industrial infrastructure is relatively strong — cement, steel, fertilizers, chemicals, etc Agricultural growth is also gaining momentum with food grains production at 233 mt in 2010.

Forex reserves are \$292.8 b (January 2012) which is a dramatic turnaround from 1991 when we had a billion dollars.

More than 1.7 lakh MW of power capacity is installed by the end of 2010.

India has emerged as a back-office of the world arid its prowess in software is growing.

India ranks fourteenth worldwide in factory output.

India ranks fifteenth worldwide in services output.

There has been considerable expansion of higher education. At the time -of Independence there were 20 universities and 591 colleges, while today, there are almost 500 universities and 21,000 colleges. Literacy levels are 75% (2011).

Indicative Planning

Indicative planning was adopted since 8th five year plan (1992-97). It is characterized by an economy where the private sector is given a substantial role. State would turn its role into a facilitator from that of a controller and regulator.

It was decided that trade and industry would be increasingly freed from government control and that planning in India should become more and more indicative and supportive in nature. In other words, the remodeling of economic growth necessitated recasting the planning model from imperative and directive ('hard') to indicative (soft) planning. Since the Government did not contribute the majority of the financial resources, it had to indicate the policy direction to the corporate sector and encourage them to contribute to plan targets. Government should create the right policy climate- predictable, irreversible and transparent to help the corporate sector contribute resources for the plan fiscal, monetary, forex and other dimensions.

Indicative planning is to assist the private sector with information that is essential for its operations regarding priorities and plan targets. Here, the Government and the corporate sector are more or less equal partners and together are responsible for the accomplishment of planning goals. Government, unlike earlier, contributes less than 50% of the financial resources. Government proved the right-type of policies and creates the right type of milieu for the private sector-including the foreign sector to contribute to the results.

Indicative planning gives the Government an opportunity to give the private sector encouragement to achieve growth in areas where the country has inherent strengths. It is known to have brought Japan results in shifting towards microelectronics In France, too indicative planning was in vogue.

Planning Commission would work on building a long-term strategic vision of the future. The concentration would be on anticipating future trends and evolving strategies for competitive international standards.

Planning will largely be indicative and the public sector would be gradually withdrawn from areas where no public purpose is served by its presence. The new approach to development will be based on "a re-examination and re-orientation of the role of the government" This point is particularly stressed in the development strategy of the Tenth Five Year Plan (2002-2007).

Indicative planning was not contemplated at the beginning of fifties as there was hardly any corporate sector in India and Government shouldered almost the entire responsibility of socio-economic planning.

Rolling Plan

It was adopted in India in 1962, in the aftermath of Chinese attack on India. Professor Gunnar Myrdal (author of famous book' Asian Drama') recommended it for developing Countries in his book – Indian Economic Planning in Its Broader Setting.

In this type, every year three new plans are made and implemented annual plan that includes annual budget; five year plan that is changed every year in response to the economic demands; and perspective plan for 10 or 15 years into which the other two plans are dovetailed annually. Rolling plan becomes necessary in circumstances that are fluid.

Financial Planning

Here, physical targets are set in line with the available financial resources. Mobilization and setting expenditure pattern of financial resources is the focus in this type of planning.

Physical planning

Here, the output targets are prioritized with inter-sect oral balance. Having set output targets, the finances are raised.

Nehru-Mahalanobis Model of Economic Growth

Indian economy at the time of Independence was characterized by dependence on exports of primary commodities, negligible industrial base; unproductive agriculture etc.

Thus, the turning point in India's planning strategy came with the second five-year (1956-61) plan. The model adopted for the plan is known as the Nehru Mahalanobis strategy of development as it articulated by

Jawahar Lal Nehru's vision and P.C. Mahalanobis was its chief architect. The central idea underlying this strategies well-conveyed by recalling the following statement from the plan document. 'If industrialization is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development.'

The Mahalanobis model of growth is based on the predominance of the basic goods (capital goods or investment goods are goods that are used to make further goods; the goods that make up the industrial market like machines, tools, factories, etc). It is based on the premise that it would attract all round investment and result in a higher rate of growth of output. That will develop small scale and ancillary industry to boost employment generation, poverty alleviation, exports etc. The emphasis was on expanding the productive ability of the system, through forging strong industrial linkages, as rapidly as possible.

Other elements of the model are

- **Import substitution:** Protective barriers against foreign competition to enable Indian companies to develop domestically produced alternatives for imported goods and to reduce India's reliance on foreign capital.
- A sizeable public sector active in vital areas of the economy including atomic energy and rail transport.
- A vibrant small-scale sector driving consumer goods production for dispersed and equitable growth and producing entrepreneurs.

In terms of the core objective of stepping up the rate of growth of industrial production, the strategy paid off. Rate of growth of overall industrial production picked up. The strategy laid the foundation for a well-diversified industrial structure within a reasonably short period and this was a major achievement. It gave the base for self-reliance.

However, the strategy is criticized for the imbalances between the growth of the heavy industry sector and other spheres like agriculture and consumer goods etc that resulted. It is further criticized as it relied on 'trickle down effect- benefits of growth will flow to all sections in course of time. This approach to eradication of poverty is slow and incremental. It is believed that frontal attack on poverty is required.

The criticism is one sided as in the given context, the Mahalanobis model was connect for growth and self-reliance.

Rao-Man Mohan Singh Model of Growth

Ans. The launching of economic reforms by the government, in 1991 is driven by the Rao-Manmohan model - Mr. Narasimha Rao, the PM in 1991 and Finance Minister Dr. Man Mohan Singh. Its essence is contained in the New Industrial Policy 1991 and extends beyond it too. The model has the following contents.

- Reorient the role of State in economic management. State should refocus on social and infrastructural development, primarily.
- Dismantle, selectively controls and permits in order to permit private sector to invest liberally.
- Open up the economy and create competition for PSEs- for better productivity and profitability.

- External sector liberalization in order to integrate Indian economy with the global economy to benefit from the resource inflows and competition.

Its success is seen in the more than 6.5% average annual rate of growth of economy during the 8th Plan (1992-1997). Forex reserves accumulated leaving the BOP crisis in history, taming of inflation, and the foreign flows- FDI' and FII increased.

Economic Reforms in India

Since July 1991, India has been taking up economic reforms, to achieve higher rates of economic growth so that socio-economic problems like unemployment, poverty, shortage of essential goods and services, regional economic imbalances and so on can be successfully solved. The force behind the reforms is

- Indian economy reached a level of growth and strength to benefit from an open market economy.
- Private sector in India had come of age and was willing and capable of playing a major role.
- Indian economy needed to integrate with the world with all the advantages like capital flows, technology, higher level of exports, state of art stock markets, Indian corporates can raise finances abroad and so on.

The country under the leadership of Dr. Manmohan Singh, Union Finance minister (1991-1996 and Prime Minister since 2004) converted the economic crisis — caused by , domestic cumulative problems of economy, political instability and gulf crisis-into an opportunity to initiate and institutionalise economic reforms to open up the economy. The deep crisis in 1991 could not be solved by superficial solutions. Therefore, structural reforms were taken up.

It was realized that by closing economy to global influences, the country was missing on technology developments and also gains from global trade. India needed exports, FDI and FII for stability on the balance of payments front and higher growth rates for social development. Worldwide, countries were embracing market model of growth, for example China, with proven results. So, India could make the historic shift from centralized planning to market-based model of growth.

What are the targeted areas of reforms?

- Reforms mainly targeted the following areas:
- Dismantling the licence raj so that private sector and government were on a level playing field
- Drive public sector towards sustainable profitability and global play by dereservation; disinvestment; professionalization of management etc.
- Fiscal reforms for stabile economic growth.
- Banking sector is deregulated and made to conform to stringent reforms for higher competitive strength and performance globally.
- Move towards free float of rupee and relaxation of controls on convertibility; aggressive export promotion; FDI and FII inflows etc.

Reforms were prioritized and sequenced in such a way as to make them sustainable and render further reforms feasible. For example, first generation reforms involved essentially non-legislative government initiatives- reduce SLR and CRR for the banking sector. Disinvestment of the PSEs. Deregulation of the rupee gradually and later make exchange rate of the rupee market-driven and so on. The second generation reforms involve legislative reforms and touch a wider section of the society- labour reforms; GST, FDI expansion etc. The former prepares the economy for the latter.

Positive Impact of Reforms in India

The reforms gained consensus and showed positive results as can be seen below.

- Rates of growth went up
- BOP crisis has been solved in the first few years and today the country has about $300b forex reserves (2011 January)
- Services sector (tertiary sector) has grown in importance and today contributes almost 57% of GDP (2010) emerging as a global player-India being the global back office.
- Exports have performed well and have recovered handsomely even while the world continues to be trapped in near recession conditions. It accounting for many jobs and quality Indian products
- Resilience of the economy in the face of Great Recession which is still not resolved
- Consumer choice has increased
- Tax-GDP ratio is at 11% of GDP (2010)
- Nature of external debt has changed and the short term component is less
- Indian companies are listed on Nasdaq and New York Stock Exchange and raised billions of dollars for investment
- FIIs and FDI has picked up.
- Indian corporates have acquired global majors like Jaguar and Anglo-Dutch steel maker Corus; Bharati bought Zain's African telecom operations (2010).

Second Generation Reforms (In Indian Context)

Having begun with the reforms in all the above sectors and seen the economy benefit from them, the second generation reforms were initiated by the end of 1990's. The reason for calling the latter set of reforms SGR is that they followed the initial reforms which laid the foundation for the reform process to deepen. It is a matter of sequencing in line with prioritization; economic preparation; consensus-building and so on. In fact, unless the success in material and human terms of the initial reforms was demonstrated, the next round of 'difficult' reforms would not be possible.

In 2001, the Economic Advisory Council of the Prime Minister advised on the second generation reforms- labour law flexibility, pension reforms based on employee contribution and the pension funds being deployed in the stock market; value added tax and GST; liberalized FDI including FDI in retail etc.

Second generation reforms are difficult as they are directly involved with the daily lives of people like

- User charges need to be rationalized to make these utilities viable but there are bound to be protests
- Man power rationalization in banks and PSUs through VRS faced resistance.
- Labour law flexibility will make TUs agitate.

- Interest rate cut, for example, for small savings will mean less returns for the middle class etc.
- Agroreforms may mean small and marginal farmers' resistance.

However, unless the SGRs are carried out, investment and growth will suffer with long term adverse consequences for poverty alleviation and employment generation. As the long term benefits of the reforms are bound to show in terms of higher growth rates and more social welfare, consensus needs to be built for successful legislation and implementation of SGRs.

Main Objective of 12th Five Year Plan

The twelfth plan has the following objectives:

- Basic objective: Faster, More inclusive, and Sustainable growth
- is 10% growth feasible? Realistically, even 9% will need strong policy action. Could aim at 9.0 to 9.5 percent
- Energy, Water and Environment present major sectoral challenges. Can we address them without sacrificing growth?
- Can we find resources to create a world class infrastructure?
- For growth to be more inclusive we need:
- Better performance in agriculture
- Faster creation of jobs, especially in manufacturing
- Stronger efforts at health, education and skill development
- Improve effectiveness of programmes directly aimed at the poor
- Special programmes for socially vulnerable groups
- Special plans for disadvantaged/ backward regions

Agriculture and Rural Development

Target at least 4% growth for agriculture. Cereals are on target for 1.5 to 2% growth. We should concentrate more on other foods, and on animal husbandry and fisheries where feasible

Land and water are the critical constraints. Technology must focus on land productivity and water use efficiency.

Farmers need better functioning markets for both outputs and inputs. Also, better rural infrastructure, including storage and food processing

States must act to modi1 APMC Act/ Rules (exclude horticulture), modernize land records and enable properly recorded land lease markets.

RKVY has helped convergence and innovation and gives State governments flexibility. Must be expanded in Twelfth Plan

MGNREGS should be redesigned to increase contribution to land productivity and rain-fed agriculture. Similarly, FRA has potential to improve forest economies and tribal societies. But convergence with NRLM required for enduring rural livelihoods

Water

Revisit India's water balance estimates basin-wise. Must map all aquifers over next five years to facilitate aquifer management plans

AIBP is not achieving its objectives. It must be restructured to incentivise irrigation reform and efficiency of resource use. Setting of Water Regulatory Authority must be a precondition. Strong case for higher priority to watershed management

Separation of electricity feeders for agriculture can improve quality of power availability

Proportion of water recycled by urban India and industry to be raised to protect water levels, and improve surface and groundwater quality

Rational water use may Need

New Groundwater Law reflecting Public Trust Doctrine New Water Framework Law (as in the EU)

Need to evolve political consensus. Perhaps discuss in a special NDC

Need National Water Commission to monitor compliance with conditionalities imposed in the investment clearance of important projects

Industry (1)

Manufacturing performance is weak. Need to grow at 11-12% per year to create 2 million additional jobs per year. Growth in 11th Plan is in 8% ballpark

Indian industry must develop greater domestic value addition and more technological depth to cater to growing domestic demands and improve trade balance

Tune-up FDI and trade policies to attract quality investment in critical areas

Improve business regulatory framework: cost of doing business', transparency incentives for R&D, innovation etc.

Land and infrastructure constraints are a major problem. States should develop 'special industrial zones' with good connectivity and infrastructure

'Clusters' need to be supported to enhance productivity of MSMEs

Better consultation and co-ordination in industrial policy making

Industry (2)

Some sectors should be given special attention because they contribute most to our objectives eg:

Create large employment: textiles and garments, leather and footwear; gems and jewelry; food processing industries Deepen technological capabilities: Machine tools; IT hardware and electronics.

Provide strategic security telecom equipment; aerospace; shipping; defence equipment Capital equipment for infrastructure growth: Heavy electrical equipment; Heavy transport and earth-moving equipment.

Sectors with global competitive advantage: automotive; pharmaceuticals and medical equipment MSMEs: innovation, employment and enterprise generation

'Sectoral plans are being prepared for each of the above with involvement of industry associations and the concerned Ministries

Education and Skill Development

Must aim at universalisation of secondary education by 2017

Must aim at raising the Gross Enrolment Ratio (GER) in Higher Education to 20 percent by 2017 and 25 percent by 2022.

Must focus on quality of education (11th Plan emphasis was on quantity). Must invest in faculty development and teachers' training

Must aim at significant reduction in social, gender and regional gaps in education. Targets to be set for this purpose

Major curriculum reforms in vocational/ skill development to ensure employability in response to changing market needs

Development and operationalisation of PPP models in School and Higher Education in accordance with the needs of a fast growing economy

Research and innovation in higher education must be encouraged with cross-linkages between institutions and industry

Health

Better health is not only about curative care, but about better prevention Clean drinking water, sanitation and better nutrition, childcare, etc. Convergence of schemes across Ministries is needed

Expenditure on health by Centre and States to increase from 1.3% of GDP to at least 2.0%, and perhaps 2.5% of GDP by end of 12th Plan

Desperate shortage of medical personnel. Need targeted approach to increase seats in medical colleges, nursing colleges and other licensed health professionals. Improve quality of NRHM services vs. quantity of NRHM infrastructure. Structured involvement of PRIs/CSOs can help

Role of PPP in secondary and tertiary healthcare must be expanded

Health insurance cover should be expanded to all disadvantaged groups

Focus on women and children; ICDS needs to be revamped

Energy (1)

Commercial energy demand will increase at 7% p.a. if GDP grows at 9%. This will require a major supply side response and also demand management

Energy pricing is a major issue. Petroleum and Coal prices are significantly below world prices and world prices are unlikely to soften.

Power Sector Issues

- We must set a target of 100,000 MW capacity in 12th Plan (against likely achievement of 50,000 MW in Eleventh Plan)
- Coal availability will be a major constraint
- Long term health of power sector seriously undermined (losses '70,000 crore per year). AT&C losses are coming down, but too slowly. State governments must push distribution reform
- Hydro-power development seriously hindered by forest and environment clearance procedures. Himalayan States complain strongly
- Electricity tariffs not being revised to reflect rising costs. Regulators are being held back from allowing justified tariff increases
- Open access is not being operationalised

Energy (2)

Coal Production

- On optimistic assumption about Coal India production, we will need to import 250 million tonnes in 2017-18
- Must plan for corresponding expansion of rail and port capacity
- Coal India must become a coal supplier and not just a mining company. Should plan to import coal to meet coal demands. This requires blending of imported and domestic coal as supplied by Coal India
- Environment and forest clearances of coal mining projects, including few private sector captive projects, will be critical. GoM is examining this

Petroleum and Natural Gas

- Need further expansion of new NELP blocks. Stable and clearer production sharing contracts will incentivise exploration and encourage investment
- Pipeline network for transportation of natural gas and LNG is limited. Need quick expansion

Energy (3)

Other Energy Sources

- Nuclear power programme must continue with necessary safety review
- Solar Mission is seriously under funded. Is bidding sufficiently competitive?
- Need longer term energy solution for cooking in rural areas. Expand LPG network (with cash subsidy for the deserving, not subsidised prices). Also use off grid solar and bio-mass energy
- Wind power development, including off shore wind power, needs to be encouraged

Demand Side Management

Expansion in supply will need to be supported by demand side management

Rational energy pricing will help. Energy standards for high energy consuming industry, electrical appliances, energy efficient buildings or enhanced use of electric! hybrid vehicles

Transport Infrastructure

- Railways' Western and Eastern Dedicated Freight Corridors (DFC) must be completed by the end of the Twelfth Plan
- High Speed Rail link between Delhi-Mumbai and Delhi-Kolkata in the Twelfth Five Year Plan
- Use more PPP in railways and state highways to complement government investment. Capital intensive transport projects should rely on private investment to release resources for other priorities
- Complete the linkages between the ports and the existing road and rail network. Need to deepen existing ports. Increase bulk/container capacity.
- Ensure sufficient provision for maintenance of the already-built roads
- Invest in unified tolling and better safety on highways
- Improve bus services/public transport in smaller cities, towns and districts.
- Metros in urban areas through PPPs wherever feasible

Managing Urbanisation

- India's urban population is expected to increase from 400 million in 2011 to about 600 million or more by 2030
- Critical challenges are basic urban services especially for the poor: water, sewerage, sanitation, solid waste management, affordable housing, public transport
- Investment required in urban infrastructure is estimated at '60 lakh crore over the next 20 years
- We need to develop and propagate innovative ways of municipal financing, through Public-Private Partnerships (PPPs)
- Land management strategies key for

good urban development as well as financing urban infrastructure development

- Need training and capacity building for urban planning and urban services management; for corporators and municipal officials
- Reform of JNNRUM for the next phase, and convergence with RAY for an integrated approach

Resource Allocation Priorities in 12th Plan

- Health and Education received less than projected in Eleventh Plan. Allocations for these sectors will have to be increased in 12th Plan
- Health, Education and Skill Development together in the Centre's Plan will have to be increased by at least 1.2 percent point of GDP
- Infrastructure, including irrigation and watershed management and urban infrastructure, will need additional 0.7 percentage point of GDP over the next 5 years
- Since Centre's GBS will rise by only 1.3 percentage points over 5 years, all other sectors will have a slower growth in allocations
- 'Must reduce the number of Centrally Sponsored Schemes (CSS) to a few major schemes. For the rest, create new flexi-fund which allow Ministries to experiment in other CSS areas
- Use of PPP must be encouraged, including in the social sector, i.e. health and education. Efforts on this front need to be intensified
- Distinction between plan and non-plan being reviewed by Rangarajan Committee

Issues for Special Category States

- Large number of Government employees means very limited scope for States' own resources for the Plan
- Private Sector investment relatively subdued — implies greater role for public investment
- Infrastructure gaps lead to higher cost of goods and services: Accelerated efforts are required to develop infrastructure
- High proportion of forest cover and mountain eco-systems become constraints on rapid development. Forest clearances are difficult to get and States have to pay NAV. They demand monetary compensation for providing "eco services" to the nation
- States' share for Centrally Sponsored Schemes is not uniform

North Eastern States contribute only 10% share for most CSS

States such as J&K, HP and Uttarakhand have to contribute normal state share under many CSS

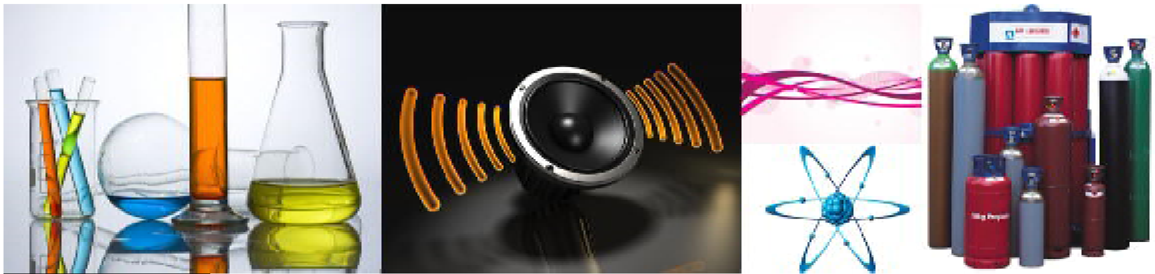
Governance and Empowerment

- Citizen feedback reveals general dissatisfaction with state of public service delivery. Total Quality Management needs to be introduced at all levels. Delivery and policy functions need to be separated in Government Ministries
- Social Mobilisation: People should be active agents of change. Flagship programmes need to provide human and financial resources for social mobilisation, capacity building and information sharing

- Professionally managed delivery organisations are needed with clear mandates and accountability. We need much better mechanisms for convergence of government departments on systemic issues
- Devolution can be effective only if the autonomy of PRIs/ULBs is increased and their human resource capabilities improved. How can the Centre help?
- Mechanisms need to be created at all levels to understand the needs of vulnerable sections of the society and inform policy-makers
- Diagnostics of Failure and Mainstreaming of Success: horizontal linkages need to be created for exchange of information and best practices
- Institutional mechanisms for conflict resolution, particularly for land and water.

Increase bulk/container capacity

- Ensure sufficient provision for maintenance of the already-built roads
- Invest in unified tolling and better safety on highways
- Improve bus services/public transport in smaller cities, towns and districts.
- Metros in urban areas through PPPs wherever feasible



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India's Economic Interaction with the World

Nations have been primarily trying to adopt various means which will strengthen their own domestic economies. To this effect, they are forming regional and global economic groupings such as the **SAARC, European Union, ASEAN, G-20** etc. In addition, there is also an increasing eagerness on the parts of various nations to try and understand, the developmental processes pursued by their neighboring nations as it allows them to better comprehend their own strengths and weaknesses vis-à-vis their neighbors. In the unfolding process of globalization, this is particularly considered essential by developing countries as they face competition not only form developed nations but also amongst themselves in the relatively limited economic space enjoyed by the developing world. Besides an understanding of the other economies in our neighborhood is also required as all major common economic activities in the region impinge on overall human development in a shared environment.

Here we will compare the developmental strategies in pursued by India and the largest two of its neighboring economies – Pakistan and China. It has to be remembered, however, that apart from the similarities in their physical endowment, there is little in wedded to a secular and deeply liberal constitution for over half a century, and the authoritarian militarist political power structure of Pakistan or the command economy of China that has only recently started moving towards a more liberal restructuring.

DEVELOPMENTAL PATH – A SNAPSHOT VIEW

India, Pakistan and china have many similarities in their developmental strategies? All the three nations have started towards their developmental path at the same time. While India and Pakistan become independent nations in 1947, People's Republic of China was established in 1949. In a speech at that time, Jawaharlal Nehru had said, "these new and revolutionary changes in China and India, even though they differ in content, symbolize the new spirit of the Asia and new vitality which is finding expression in the countries in Asia."

All the three countries had started planning their development strategies in similar ways. While India announced its first five Year Plan for1951-56, Pakistan announced its first five year plan, called. The Medium Term Plan, in 1956 China announced its five Year Plan in 1953 till current planning in India is based on Tenth Five Year Plan (2002-07). India and Pakistan adopted similar strategies such as creating a large public sector and raising public expenditure on social development. Till the 1980s, all the three countries had similar growth rates and per capita.

China: After the establishment of People's Republic of china under one party rule, all the critical sector of the economy, enterprises and lands owned and operated by individuals were brought under government control. The Great Leap Forward (GLF) campaigned to set up industries in their backyards. In rule areas, communes were started. Under the Commune system, people collectively cultivated lands. 1958, there were 26,000 communes covering almost all the farm population.

GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people. When Russia had conflicts with China, it withdrew its professional who had earlier been sent to help in the industrialisation process. In 1965, mao introduced the Great Proletarian Cultural Revolution (1966-76) under which students and professional were sent to work learn form the countryside.

The present- day fast industrial growth in China can be traced beck to the reforms introduced in 1978. China introduced reforms in phases. In the initial phase, reforms were initiated in agriculture, foreign trade and investment sector. In the initial phase, reforms were initiated in divided into small plots which were allocated (for use not ownership) to individual households. They were allowed to keep all income from the land after paying stipulated taxes. In the later phase reforms were initiated in the industrial sector. Private sector firms, in general, and township and village enterprises, i.e. those enterprises which were owned and operated by local collectives, in particular, were allowed to produce good. At this stage, enterprises owned by government (know as State Owned Enterprises-SOEs), which we, in India, call public sector enterprises, were made to face competition. The reform process also involved pricing. This means fixing the prices in two ways, formers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the year, as production increased, the proportion of good or inputs transacted in the market was also increased. In order to attract foreign investors, special economic zones were set up.

Pakistan: While looking at various economic policies that Pakistan adopted, you will notice many similarities with India. Pakistan also follows the mixed economy model with co-existence of public and private sectors. In late1950s and 1960s. Pakistan introduced a variety of regulated policy framework (for import substitution industrialization). The policy combined tariff protection for manufacturing of consumer goods together with direct import and increase on competing imports. The introduction of Green Revolution led to mechanization and increase in competing import. The infrastructure in select areas, which finally led to a rice in the increase in the production of food grains. This changed the agrarian structure dramatically. In the 1970s, nationalization of capital goods industries took place areas were denationalization and encouragement to private Sector. During this period, Pakistan also received financial support form western nations and remittances form continuously increasing outflow of emigrants to the middle-east.

This helped the country in stimulating economic growth The then government also offered incentives to the private sector. All this created a conducive climate for new investments. In 1988, reforms were initiated in the country.

DEMOGRAPHIC INDICATORS

If we look at the global population, out of every six persons living in this world, one is an India and another Chinese we shall compare some demographic indicators of India, China and Pakistan The population of Pakistan is very small and accounts for roughly about one-tenth of China or India.

Though China is the largest nation among the three, its density is the lowest though geographically it occupies the largest area. Population growth as being highest in Pakistan, followed by India and China. Scholars point out the one-child norm introduced in China in the late 1970s as the major reason for low population growth. They also state this measure let to decline in the sex ratio, the proportion of females per 1000 males.

Scholars cite son preference prevailing in all these countries as the reason. In recent time, the resultant arrests in the growth of population also have other implication. For instance, after a few decades, in China there will be more elderly people in proportion to young people This will force China to take Steps to provide social security measures with fewer workers.

The fertility rate is also low in China and very high in Pakistan Urbanization is high both Pakistan and China with India having 28 per cent of people living in urban areas.

GROSS DOMESTIC PRODUCT AND SECTORS.

One of the much talked issues around the world about China is its growth of Gross Domestic Product China has the second largest GDP (PPP) of $7.2 trillion whereas India's GDP (PPP) is $3.3 trillion and Pakistan's GDP is roughly about 10 per cent of India's GDP.

Country	1980 - 90	1990 - 2003
India	5.7	5.8
China	10.3	9.7
Pakistan	6.3	3.6

Growth of Gross Domestic Products (%), 1980 - 2003

When many developed countries were finding it difficult to maintain a growth rate of even 5 per cent, China was able to maintain near double- digit growth for more than two decades. Also notice that in the 1980s Pakistan was ahead of India, China was having double digit growth and India was at the bottom. In the 1990s, there is a marginal decline in India and China`s growth rates whereas Pakistan met with drastic decline at 3.6 cent. Some scholars hold the reform processes introduced in 1988 in Pakistan and political instability as the reason behind this trend.

First, look at how people engaged in different sectors contribute to Gross Domestic Product. China and Pakistan have more proportion of urban people than India. In China, due to topographic and climatic conditions, the area suitable for cultivation is relatively small – only about 10 per cent of its total land area. The total cultivable area in Chain accounts for 40 per cent of the cultivable area in India. Until the 1980s, more than 80 per cent of the people in China were dependent on farming as their sole source of livelihood. Since then, the government encouraged people to leave their field and pursue other activities such as handicrafts, commerce and transport. In 2000, with 54 per cent of its workforce engaged I agriculture, its contribution to GPD in china is 115 per cent.

In both India and Pakistan, the contribution of agriculture to GPD is the same, at 23 per cent, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 49 per cent of people work in agriculture whereas in India it is 60 per cent.

The sectoral share of output and employment also shows that in all the three economies, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In china, manufacturing contributes the highest to GPD at 53 per cent whereas in India and Pakistan, it is the service sector, which contributes the highest. In both these countries, services sector accounts for more than 50 per cent of GPD.

In the normal course of development, countries first shift their employment and output form agriculture to manufacturing and then to service. This is what is happening in china. The proportion of workforce engaged in manufacturing in India and Pakistan were low at 16 and 18 per cent respectively. The contribution of industries to GPD is also just equal to or marginally higher than the output form agriculture. In India and Pakistan, the shift is taking place directly to the service sector.

Thus, in both India and Pakistan, the service sector is emerging as a major player of development. It contributes more to GPD and, at the same time, emerging as a prospective employer. If we look at the proportion of workforce in the 1980s, India and Pakistan was faster in shifting its workforce to service sector respectively. In 2000, it has reached the level of 24, 19 and 37 per cent respectively.

In the last tow decades, the growth of agriculture sector, which employs the largest proportion of workforce in all the three countries, has declined. In the industrial sector, china has maintained a double – digit growth rate whereas for India and Pakistan growth rate has declined. In the case of service sector, India has been able to raise its rate of growth in the 1990s while china and Pakistan has shows deceleration in all the three sectors.

Country	1980 – 90			1990 – 2002/03		
	Agriculture	Industry	Service	Agriculture	Industry	Service
India	3.1	7.4	6.9	2.7	6.6	7.9
China	5.9	10.8	13.5	3.9	11.8	8.8
Pakistan	4	7.7	6.8	3.7	3.9	4.3

Trades in Output Growth in Different Sectors, 1980-2003

INDICATORS OF HUMAN DEVELOPMENT

If we compare the indices given in the table you will find that china is moving ahead of India and Pakistan. This is true for many indicators - income indicator such as GPD per capita, or proportion of population below poverty line or health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment. Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in education, sanitation and access to water is better than India. But neither of these tow countries have been able to save women from maternal mortality. In china, for one lakh births, only 50 women die whereas in India and Pakistan, more than 500 women die. Surprisingly India and Pakistan are ahead of china in providing improved water sources. You will notice that for the proportion of people below the international poverty rate of $1 a day, both china and Pakistan are in similar position whereas the proportion is almost two times higher for India.

Items	India	China	Pakistan
Human Development	0.602	0.755	0.527
Index (Value Rank	127	71.6	135
Life expectancy at birth (Years)	63.3	90.9	63.0
Adult literacy rate (8 aged 15 and above)	61.0	5,003	48.7
GDP per capita (PPP US$)	2,892	16.6	2,097
People below poverty line	34.7	85	13.4
Infant Mortality Rate	63	30	81
Maternal Mortality Rate	540	56	500
Population with sustain-able access to improved sanitation	(8)	30	4454
Population with sustain-able access to an impro-ved water source (8)	86	77	90
Population undernouri-shed (8 of total)	21	11	20

Some Select
Indicators of Human Development, 2003

In dealing with or making judgments on such question, however, we should also note a problem with using the human development indicators given above with conviction. This occurs because these are all extremely important indicators: but these are not sufficient. Along with these, we also need what may be called 'liberty indicators'. One such indicator has actually been added as a measure of 'the extent of democratic participation in socially and politically decision mankind' but it has not been given any extra weight.

Some obvious 'liberty indicators' like measures of the extent of constitutional protection given to rights of citizens ' or the 'extent of constitutional protection of the independence of the judiciary and the rule of law' have not even been introduced so far. Without including these (and perhaps some more) and giving them overriding importance in the list, the construction of a human development index may be said to be incomplete and its usefulness limited.

DEVELOPMENT STRATEGIES- AN APPRAISAL

It is common to find developmental strategies of country as a model to other for lessons and guidance for their own development. It is particularly evident after the introduction of the reform process indifferent parts of the world. In order to learn from economic performance of our neighboring countries, it is necessary to have an understanding of the roots of their successes and failures. It is also necessary to distinguish between, and contrast, the different of their strategies. Though different countries go though their development phases differently, let us take the ignition of reforms as a point of reference. We know that reforms were initiated in China in 1978, Pakistan in 1988 and India in 1991. Let us briefly assess their achievements and failures in pre and post reform periods.

Why did China introduce structural reforms in 1978? China did not have any compulsion to introduce reforms as dictated by the World Bank and International Monetary Fund to India and Pakistan. The new leadership at that time in China was not happy with the slow pace of growth and lack of modernization in the Chinese economy under the Maoist rule. They felt that Maoist vision of economic development based on decentralization, self-sufficiency and shunning of foreign technology, goods and capital has failed. Despite extensive land reforms, collectivization, the Great Leap Forward and other initiatives, the per capita grain output in 1978 was the same as it was in the mid- 1950s.

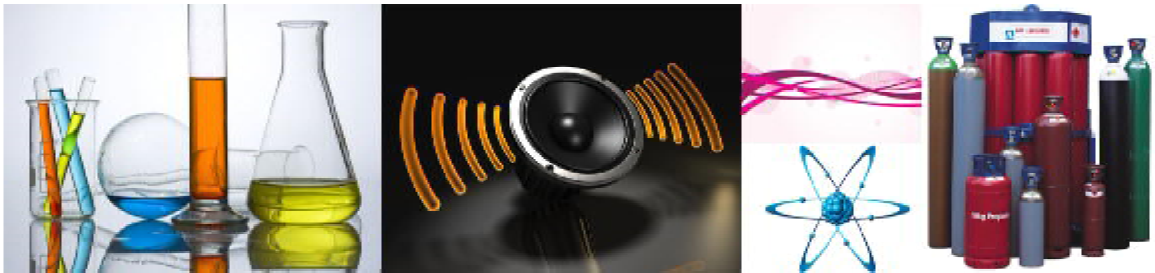
It was found that establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralized planning and existence of small enterprises had helped positively in improving the social and income indicators in the post reform period. Before the introduction of reform, there had already been massive extension of basic health services in rural areas. Though the commune system, there was more equitable distribution of food grains. Experts also point out that each reform; measure was first implemented at a smaller level and then extended on a massive scale. The experimentation under decentralized government enabled to assess the economic, social and political costs of success or failure. For instance, when reforms were made in agriculture, as pointed out earlier by handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms. Scholars quote many such examples on how reform measures let to rapid growth in China.

Though the data on international poverty line for Pakistan is quite healthy, scholars using the official data of Pakistan indicate rising poverty there. The proportion of poor in 1960s was more than 40 per cent which declined to 25 per cent in 1980s and started rising again in 1960s. The reasons for the slow-down of growth and re-emergence of poverty in Pakistan's economy, as scholars put it. Are (i) agricultural growth and food supply situation were base not on an instituonalised process of technical change but on good harvest. When there was a good harvest, the economy was in good condition, when it was not, the economic indicators showed stagnation or negative trends you will recall that India had to borrow from the IMF and World Bank to set right its balance of payment crisis: foreign exchange is an essential component for any country and it is important to know how it can be earned. If a country is able to build up its foreign exchange earnings by sustainable export of manufactured goods, it need not worry. In Pakistan most foreign exchange earnings came from remittances from Pakistani workers in the Middle-east and the export of highly volatile agricultural products: there was also growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

However, as stated in the 'One Year Performance of the (Pakistan) Government' for the year August 2004-2005, the Pakistan economy has been witnessing GDP growth at about 8 percent for three consecutive years = (2002-2005). All the three sectors, agriculture, manufacturing and service, have contributed to this trend. Besides facing high rates of inflation and rapid privatisation, the government is increasing the expenditure on various areas that can reduce poverty.

CONCLUSION

What are we learning from the developmental experiences of our neighbors? India, China and Pakistan have traveled more than five decades of development path with varied results. Till the late 1970s, all of them were maintaining the same level of low development. The last three decades have taken these countries to different levels. India, with democratic institutions, performed moderately, but a majority of its people still depends on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line. Scholars are of the opinion that political instability, over-dependence on remittances and foreign aid along with volatile performance of agriculture sector are the reasons for the slowdown of the Pakistan economy. Yet, in the recent past, it is hoping to improve the situation by maintaining high rates of GDP growth. It is also a great challenge for Pakistan to recover from the devastating earthquake in 2005, which took the lives of nearly 75,000 people and also resulted in enormous loss to property. In china, the lack of political freedom and its implications for human rights are major concerns; yet, in the last three decades, it used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of poverty. Unlike India and Pakistan, which are attempting to privatize their public sector enterprises, China has used the market mechanism to 'create additional social and economic opportunities'. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas. Public intervention in providing social infrastructure even prior to reforms has brought about positive results in human development indication in China.



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Liberalization

Rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development. Liberalization was introduced to put an end to these restrictions and open up various sectors of the economy. Though a few liberalization measures were introduced in 1980s in areas of industrial licensing, export-import policy, technology up gradation, fiscal policy and foreign investment, reform policies initiated in 1991 were more comprehensive. Let us study some important areas such as the industrial sector, financial sector, tax reforms, foreign exchange markets and trade and investment sectors which received greater attention in and after 1991.

Deregulation of industrial Sector: In India, regulatory mechanisms were enforced in various ways (i) industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced (ii) private sector was not allowed in many industries (iii) some goods could be produced only in small scale industries and (iv) controls on price fixation and distribution of selected industrial products.

The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories – alcohol, cigarettes, hazardous chemicals industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are defence equipments, atomic energy generation and railway transport. Many goods produced by small scale industries have now been dereserved. In many industries, the market has been allowed to determine the prices. Financial Sector Reforms: Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market.

The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

Navaratnas and public Enterprise Policies

In 1996, in order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalized global environment, the government chose nine PSUs and declared them as navaratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. Greater operational, financial and managerial autonomy had also been granted to 97 other profit-making enterprises referred to as mini ratnas.

The first set of navaratna companies included Indian Oil Corporation Ltd (IOC), Bharat Petroleum Corporation Ltd (BPCL), Hindustan Petroleum Corporation Ltd (HPCL), Oil and Natural Gas Corporation Ltd (ONGC), Steel Authority of India Ltd (SAIL), Indian Petrochemicals Corporation Ltd. (IPCL), Bharat Heavy Electricals Ltd (BHEL), National Thermal Power Corporation (NTPC) and Videsh Sanchar Nigam Ltd (VSNL). Later, two more PSUs- Gas Authority of India Limited (GAIL) and Mahanagar Telephone Nigam Ltd (MTNL)- were also given the same status.

Many of these profitable PSUs were originally formed during the 1950s and 1960s when self-reliance was an important element of public policy. They were set up with the intention of providing infrastructure and direct employment to the public so that quality end-product reaches the masses at a nominal cost and the companies themselves were made accountable to all stakeholders. The granting of navaratna status resulted in better performance of these companies. Scholars state that instead of facilitating navaratnas in their expansion and enabling them to become global players, the government partly privatized them through disinvestment. Of late, the government has decided to retain the navaratnas in the public sector and enable them to expand themselves in the global markets and raise resources by themselves from financial markets.

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent. Those banks which fulfill certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalize their existing branch networks. Though banks have been given permission to generate resources from India and abroad, certain aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation. Foreign Institutional Investors (FII) such as merchant bankers, mutual funds and pension funds are now allowed to invest in Indian financial markets.

Tax Reforms: Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as its fiscal policy. There are two types of taxes: direct and indirect. Direct taxes consist of taxes on incomes of individuals as well as profits of business of enterprises. Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. The rate of corporation tax, which was very high earlier, has been gradually reduced. Efforts have also been made to reform the indirect taxes, taxes levied on commodities, in order to facilitate the establishment of a common national market for goods and commodities. Another component of reforms in this area is simplification. In order to encourage better compliance on the part of taxpayers procedures have been simplified and the rates also substantially lowered.

Foreign Exchange Reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. It also set the tone to free the determination of rupee value in the foreign exchange market from government control. Now, more often than not, markets determine exchange rates based on the demand and supply of foreign exchange.

Trade and Investment Policy Reforms: Liberalization of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investment and technology into the economy. The aim was also to promote the efficiency of the local industries and the adoption of modern technologies.

In order to protect domestic industries. India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector.

The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports. Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001. Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Global Footprint!

Owing to globalization, you might find many Indian companies expanding their wings to many other countries. In 2000, Tata Tea surprised the world by acquiring the UK based Tetley, the inventor of the tea bag, for Rs. 1,870 croer.

In the year 2004. Tata steel bought the Singapore based Nat steel for Rs. 1,245 crorer and Tata Motors completed the buyout of Daewoo's heavy commercial vehicle unit in South Korea for Rs 448 crore. Now VSNL is acquiring Tyco's undersea cable network for Rs. 572 crore, which will control over 60,000 km undersea cable network across three continents. The Tatas also plan to invest Rs. 8,800 croer in fertilizer, steel and power plants in Bangladesh.

PRIVATIZATION

It implies shedding of the ownership or management of a government owned enterprise. Government companies can be converted into private companies in two ways (i) by withdrawal of the government from ownership and management of public sector companies and or (ii) by outright sale of public sector companies.

Privatization of the public sector undertaking by selling off part of the equity of PSUs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernization. It was also envisaged that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs. The government envisaged that privatization could provide strong impetus to the inflow of FDI.

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as navaratnas and mini ratnas.

GLOBALIZATION

Globalization is the outcome of the policies of liberalization and privatization. Although globalization is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involved creation of networks and activities transcending economic, social and geographical boundaries. Globalization attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

Outsourcing: This is one of the important outcomes of the globalization process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security- each provided by respective departments of the company). As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitized and transmitted in real time over continents and national boundaries. Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period.

World Trade Organization (WTO): The WTO was founded in 1995 as the successor organization to the General Agreement on Trade and Tariff GATT was established in 1948 with 23 countries as the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes. WTO is expected to establish a rule based trading regime in which nations cannot place arbitrary restrictions on trade. In addition, it purposes is also to enlarge production and trade of services, to ensure optimum utilization of world resources and to protect the environment.

The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers and providing greater market access to all member countries.

As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world.

India has kept its commitments towards liberalization of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates.

Gwoth of GDP and Major Sectors (in %)

Sector	1980-91	1992-2001	2002-07 (Tenth Plan Projected)
Agriculture	3.6	3.3	4.0
Industry	7.1	6.5	9.5
Services	6.7	8.2	9.1
GDP	5.6	6.4	8.0

Some scholars question the usefulness of India being a member of the WTO, as a major volume of international trade occurs among the developed nations. They also say that while developed countries file complaints over agricultural subsidies given in their countries, developing countries feel cheated as they are forced to open up their markets for developed countries but are not allowed access to the markets of developed countries.

Providing minimum basic needs to the people and reduction of poverty have been the major aims of independent India. The pattern of development that the successive five year plans envisaged laid emphasis on the upliftment of the poorest of the poor (Antyodaya), integrating the poor into the mainstream and achieving a minimum standard of living for all.

While addressing the Constituent Assembly in 1947, Jawaharlal Nehru had said, "This achievement (Independence) is but a step, an opening of opportunity, to the great triumphs and achievements that await us… the ending of poverty and ignorance and disease and inequality of opportunity."

Poverty is not only a challenge for India, as more than one fifth of the world's poor live in India alone; but also for the world, where more than 260 million people are not able to meet their basic needs. Poverty has many faces, which have been changing from place to place and across time, and has been described in many ways.

Most often, poverty is a situation that people want to escape. So poverty is a call to action- for the poor and the wealthy alike-a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities.

WHO ARE THE POOR?

You would have noticed that in all localities and neighbourhoods, both in rural and urban areas, there are some of us who are poor and some who are rich. Their lives are examples of the two extremes. There are also people who belong to the many stages in between. Push cart vendors, street cobblers, women who string flowers, rag pickers, vendors and beggars are some examples of poor and vulnerable groups in urban areas.

They possess few assets. They reside in kutcha hutments with wall made of baked mud and roofs made of grass, thatch, bamboo and wood. The poorest of them do not even have such dwellings. In rural areas many of them are landless. Even if some of them possess land, it is only dry or waste land. Many do not get to have even two meals a day. Starvation and hunger are the key features of the poorest households. The poor lack basic literacy and skills and hence have very limited economic opportunities. Poor people also face unstable employment. Malnutrition is alarmingly high among the poor. Ill health, disability or serious illness makes them physically weak. They borrow from money lenders who charge high rates of interest that lead them into chronic indebtedness. The poor are hghly vulnerable. They are not able to negotiate their legal wages from employers and are exploited. Most poor households have no access to electricity. Their primary cooking fuel is firewood and cow dung cake. A large section of poor people do not even have access to safe drinking water. There is evidence of extreme gender inequality in the participation of gainful employment, education and in decision-making within the family. Poor women receive less care on their way to motherhood. Their children are less likely to survive or be born healthy.

What is Poverty?

Two scholars, Shaheen Rafi Khan and Damian Killen, put the conditions of the poor in a nutshell: Poverty is hunger. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job. Poverty is fear for the future, having food once in a day. Poverty is losing a child to illness, brought about by unclear water. Poverty is powerlessness, lack of represen-tation and freedom.

Scholars identify the poor on the basis of their occupation and ownership of assets. They state that the rural poor work mainly as landless agricultural labourers, cultivators with very small landholdings, landless labourers who are engaged in a variety of non-agricultural jobs and tenant cultivators with small land holdings.

The urban poor are largely the overflow of the rural poor who had migrated to urban areas in search of alternative employment and livelihood, labourers who do a variety of casual jobs and the self-employed who sell a variety of things on roadsides are engaged in various activities.

HOW ARE POOR PEOPLE IDENTIFIED?

If India is to solve the problem of poverty, it has to find viable and sustainable strategies to address-the causes of poverty and design schemes to help the poor out of their situation. However, for these schemes to be implemented, the government needs to be able to identify who the poor are. For this there is need to develop a scale to measure poverty, and the factors that make up the criteria for this measurement or mechanism need to be carefully chosen.

In pre-independent India, Dadabhai Naoroji was the first to discuss the concept of a Poverty Line. He used the menu for a prisoner and used appropriate prevailing prices to arrive at what may be called 'jail cost of living'. However, only adults stay in jail whereas, in an actual society, there are children too. He, therefore, appropriately adjusted this cost of living to arrive at the poverty line. For this adjustment, he assumed that one-third population consisted of children and half of them consumed very little while the other half consumed half of the adult diet. This is how he arrived at the factor of three-fourths; (1/6) (Nil) + (1/6) (Half) + (2/3) (Full) = (3/4) (Full). The weighted average of consumption of the three segments gives the average poverty line, which comes out to be three-fourth of the adult jail cost of living.

In post-independent India, there have been several attempts to work out a mechanism to identify the number of poor in the country. For instance, in 1962, the Planning Commission formed a Study Group. In 1979, another body called the 'Task Force on Projections of Minimum Needs and Effective Consumption Demand' was formed. In 1989, an 'Expert Group' was constituted for the same purpose.

Besides these bodies, many individual economists have also attempted to develop such a mechanism. For the purpose of defining poverty we divide people into two categories; the poor and the non-poor and the poverty line separates the two. However, there are many kinds of poor; the absolutely poor, the very poor and the poor. Similarly there are various kinds of non-poor; the middle class, the upper middle class the rich, the very rich and the absolutely rich. Think of this as a line or continuum from the very poor to the absolutely rich with the poverty line dividing the poor from the non-poor.

Categorizing Poverty: There are many ways to categories poverty. In one such way people who are always poor and those who are usually poor but who may sometimes have a little more.

Money (example: casual workers) are grouped together as the chronic poor. Another group are the churning poor who regularly move in and out of poverty (example: small farmers and seasonal workers) and the occasionally poor who are rich most of the time but may sometimes have a patch of bad luck. They are called the transient poor. And then there are those who are never poor and they are the non-poor.

The Poverty Line: Now let us examine how to determine the poverty line. There are many ways of measuring poverty. One way is to determine it by the monetary value (per capita expenditure) of the minimum calorie intake that was estimated at 2,400 calories for a rural person and 2,100 for a person in the urban area. Based on this, in 1999-2000, the poverty line was defined for rural areas as consumption worth Rs. 328 per person a month and for urban areas it was Rs. 454.

Though the government uses Monthly Per Capita Expenditure (MPCE) as proxy for income of households to identify the poor.

Scholars state that a major problem with this mechanism is that it groups all the poor together and does not differentiate between the very poor and the other poor. Though this mechanism takes consumption expenditure on food and a few select items as proxy for income, economists question its basis. This mechanism is helpful in identifying the poor as a group to be taken care of by the government, but it would be difficult to identify who among the poor need help the most.

There are many factors, other than income and assets, which are associated with poverty; for instance, the accessibility to basic education, health care, drinking water and sanitation. The mechanism for determining the Poverty Line also does not take into consideration social factors that trigger and perpetuate poverty such as illiteracy, ill health, lack of access to resources, discrimination or lack of civil and political freedoms. The aim of poverty alleviation schemes should be to improve human lives by expanding the range of things that a person could be and could do, such as to be healthy and well-nourished, to be knowledgeable and participate in the life of a community. From this point of view, development is about removing the obstacles to the things that a person can do in life, such as illiteracy, ill health, lack of access to resources, or lack of civil and political freedoms.

Though the government claims that higher rate of growth, increase in agricultural production, providing employment in rural areas and economic reform packages introduced in the 1990s have resulted in a decline in poverty levels, economists raise doubts the government's claim. They point out that the way the data are collected, items that are included in the consumption basket, methodology followed to estimate the poverty line and the number of poor and manipulated to arrive at the reduced figures of the number of poor in India.

Due to various limitations in the official estimation of poverty, scholars have attempted to find alternative methods. For instance, Amartya Sen, noted Nobal Laureate, has developed in index known as Sen Index. There are other tools such as Poverty Gap Index and Squared Poverty Gap.

WHAT CAUSES POVERTY?

Poverty is explained by individual circumstances and/or characteristics of poor people. Some examples are (i) low levels of education and skills (ii) infirmity, ill health, sickness (iii) discrimination. These can be caused as a result of (i) social, economic and political inequality (ii) social exclusion (iii) unemployment (iv) indebtedness (v) unequal distribution of wealth. Aggregate poverty is just the sum of individual poverty. Poverty is also explained by general, economy-wide problems, such as (i) low capital formation (ii) lack of infrastructure (iii) lack of demand (iv) pressure of population (v) lack of social/ welfare nets.

We know the British rule in India. Although the final impact of the British rule on Indian living standards is still being debated, there is no doubt that there was a substantial negative impact on the Indian economy and standard of living of the people. There was substantial de-industrialization in India under the British rule. Imports of manufactured cotton cloth from Lancashire in England displaced much local production, and India reverted to being an exporter of cotton yarn, not cloth.

As over 70 per cent of Indians were engaged in agriculture throughout the British Raj period, the impact on that sector was more important on living standards than anything else. British policies involved sharply raising rural taxes that enabled merchants and moneylenders to become large landowners. Under the British, India began to export food grains and, as a result, as many as 26 million people died in famines between 1875 and 1900.

Britian's main goals from the Raj were to provide a market for British exports, to have India service its debt payments to Britain, and for India to provide manpower for the British imperial armies.

The British Raj impoverished millions of people in India. Our natural resources were plundered, our industries worked to produce goods at low prices for the British and our food grains were exported. Many died due to famine and hunger. In 1857-58, anger at the overthrow of many local leaders, extremely high taxes imposed on peasants, and other resentments boiled over in a revolt against British rule by the sepoys, Indian troops commanded by the British. Even today agriculture is the principal means of livelihood and land is the primary asset of rural people; ownership of land is an important determinant of material well-being and those who own some land have a better chance to improve their living conditions. Since independence, the government has attempted to redistribute land and has taken land from those who have large amounts to distribute it to those who do not have any land, but work on the land as wage labourers. However, this move was successful only to a limited extent as large sections of agricultural workers were not able to farm the small holdings that they now possessed as they did not have either money (assets) or skills to make the land productive and the land holdings were too small to be viable.

A large section of the rural poor in India are the small farmers. The land that they have is, in general, less fertile and dependent on rains. Their survival depends on subsistence crops and sometimes on livestock. With the rapid growth of population and without alternative sources of employment, the per-head availability of land for cultivation has steadily declined leading to fragmentation of land holdings. The income from these small land holdings is not sufficient to meet the family's basic requirements.

The scheduled castes and scheduled tribes are not able to participate in the emerging employment opportunities in different sectors of the urban and rural economy as they do not have the necessary knowledge and skills to do so.

The urban poor in India are largely the overflow of the rural poor who migrate to urban areas n search of employment and a livelihood. Industrialization has not been able to absorb all these people. Most of the urban poor are either unemployed or intermittently employed as casual labourers. Casual labourers are among the most vulnerable in society as they have no job security, no assets, limited skills, sparse opportunities and no surplus to sustain them.

Poverty is, therefore, also closely related to nature of employment. Unemployment or under employment and the casual and intermittent nature of work in both rural and urban areas that compels indebtedness, in turn, reinforces poverty. Indebtedness is one of the significant factors of poverty.

A steep rise in the price of food grains and other essential goods, at Work a rate higher than the price of luxury goods, further intensifies the hardship and deprivation of lower income groups. The unequal distribution of income and assets has also led to the persistence of poverty in India.

All this has created two distinct groups in society: those who possess the means of production and earn good incomes and those who have only their labour to trade for survival. Over the years, the gap between the rich and the poor in India has widened. Poverty is a multi-dimensional challenge for India that needs to be addressed on a war footing.

Towards Poverty Alleviation

The Indian Constitution and five year plans state social justice as the primary objective of the developmental strategies of the government. To quote the First Year Plan (1951-56), "the urge to bring economic and social change under present conditions comes from the fact of poverty and inequalities in income, wealth and opportunity". The Second Five Year Plan (1956-61) also pointed out that "the benefits of economic development must accrue more and more to the relatively less privileged classes of society". One can find, in all policy documents, emphasis being laid on poverty alleviation and that various strategies need to be adopted by the government for the same.

This was the major focus of planning in the 1950s and early 1960s. It was felt that rapid industrial development and transformation of agriculture through green revolution in select regions would benefit the underdeveloped regions and the more backward sections of the community. Population growth has resulted in a very low growth in per capita incomes. The gap between poor and rich has actually widened. The Green Revolution exacerbated the disparities regionally and between large and small farmers. There was unwillingness and inability to redistribute land. Economics state that the benefits of economic growth have not trickled down to the poor.

While looking for alternatives to specifically address the poor, policy makers started thinking that incomes and employment for the poor could be raised through the creation of incremental assets and by means of work generation. This could be achieved specific alleviation programmes.

This second approach has been initiated from the Third Five Year Plan (1961-66) and progressively enlarged since then. One of the noted programmes initiated in the 1970s was Food for Work.

The programmes that are being implemented now are based on the perspective of the Tenth Five Year Plan (2002-2007) Expanding self-employment programmes and wage employment programmes are being considered as the major ways of addressing poverty. Examples of self-employment programs are Rural Employment Generation Programme (REGP). Prime Minister's Rozgar Yojana (PMRY) and Swarna Jayanti Shahari Rozgar Yojana (SJSRY). The first programme aims at creating self-employment opportunities in rural areas and small towns. The Khadi and Village Industries Commission is implementing it. Under this programme, one can get financial assistance in the form of bank loans to set up small industries. The educated unemployed from low income families in rural and urban areas can get financial help to set up any kind of enterprise that generates employment under PMRY. SJSRY mainly at creating employment opportunities- both self-employment and wage employment-in urban areas.

Earlier, under self-employment, financial assistance was given to families or individuals. Since the 1990s, this approach has been changed. Now those who wish to benefit from these programmes are encouraged to form self-help groups. Initially they are encouraged to save some money and lend among themselves as small loans. Later, through banks, the government provides partial financial assistance to SHGs which then decided whom the loan is to be given to for self-employment activities. Swarnajayanti Gram Swarozgar Yojana (SGSY) is one such programme.

The government has a variety of programmes to generate wage employment for the poor unskilled people living in rural areas. Some of them are National Food for Work Programme (NFWP) and Sampoorna Grameen Rosgar Yojana (SGRY). In August 2005, the Parliament has passed a new Act to provide guaranteed wage employment to every household whose adult volunteer is to do unskilled manual work for a minimum of 100 days in a year. This Act is known as National Rural Employment Guarantee Act-2005. Under this Act all those among the poor who are ready to work at the minimum wage can report for work in areas where this programme is implemented.

The third approach to addressing poverty is to provide minimum basic amenities to the people. India was among the pioneers in the world to envisage that through public expenditure on social consumption needs-provision of food grains at subsidized rates, education, health, water supply and sanitation-people's living standard could be improved. Programmes under this approach are expected to supplement the consumption of the poor, create employment opportunities and bring about improvements in health and education. One can trace this approach from the Fifth Five Year Plan, "even with expanded employment opportunities, the poor will not be able to buy for themselves all the essential goods and services. They have to be supplemented up to at least certain minimum standards by social consumption and investment in the form of essential food grains, education, health, nutrition, drinking water, housing, communications and electricity."

Three major programmes that aim at improving the food and nutritional status of the poor are Public Distribution System, Integrated Child Development Scheme and Midday Meal Scheme. Pradhan Mantri Gram Sadak Yojana, Pradhan Mantri Gramodaya Yojana, Valmiki Ambedkar Awas Yojana are also attempts in the same direction. It may be essential to briefly state that India has achieved satisfactory progress in many aspects.

The government also has a variety of other social security programmes to help a few specific groups. National Social Assistance Programme is one such programme initiated by the central government. Under this programme, elderly people who do not have anyone to take care of them care given pension to sustain themselves. Poor women who are destitute and widows are also covered under this scheme.

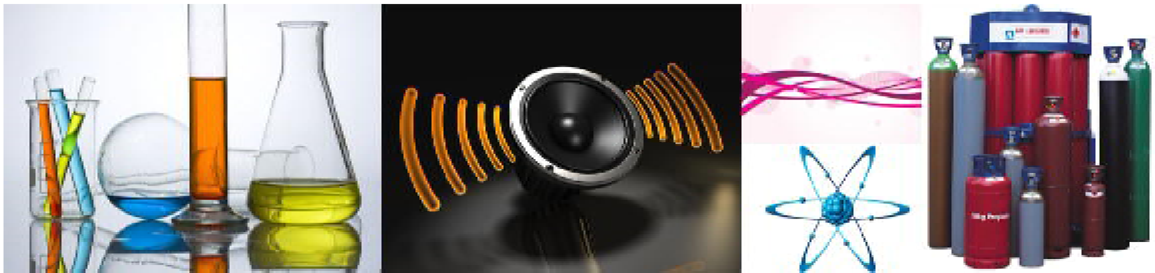
POVERTY ALLEVIATION PROGRAMMES - A CRITICAL ASSESSMENT

Efforts at poverty alleviation have borne fruit in that for the first time since independence, the percentage of absolute poor in some states is now well below the national average. Despite a variety of approaches, programmes and scheme to alleviate poverty; hunger, malnourishment, illiteracy and lack of basic amenities continue to be a common feature in many parts of India. Though the policy towards poverty alleviation has evolved in a progressive manner, over the last five and a half decades, it has not undergone any radical transformation. You can find change in nomenclature, integration mulations of programmes.

However, none resulted in any radical change in the ownership of assets, process of production and improvement of basic amenities to the needy. Scholars, while assessing these programmes, state three major areas of concern which prevent their successful implementation. Due to unequal distribution of land and other assets, the benefits from direct poverty alleviation programmes have been appropriated by the non-poor. Compared to the magnitude of poverty, the amount of resources allocated for these programmes is not sufficient. Moreover, these programmes depend mainly on government and bank officials for their implementation. Since such officials are ill motivated, inadequately trained, corruption prone and vulnerable to pressure from a variety of local elites, the resources are inefficiently used and wasted. There is also non-participation of local level institutions in programme implementation.

Government policies have also failed to address the vast majority of vulnerable people who are living on or just above the poverty line. It also reveals that high growth alone is not sufficient to reduce poverty. Without the active participation of the poor, successful implemen-tation of any programme is not possible. Poverty can effectively be eradicated only when the poor start contributing to growth by their active involvement in the growth process. This is possible through a process of social mobilization, encouragement poor people to participate and get them empowered. This will also help create employment opportunities which may lead to increase in levels of income, skill development, health and literacy. Moreover, it is necessary to identify poverty stricken areas and provide infrastructure such as schools, roads, power, telecom, IT services, training institutions etc.

We have travelled about six decades since independence. The objective of all our policies had been stated as promoting rapid and balanced economic development with equality and social justice. Poverty alleviation has always been accepted as one of India's main challenges by the policy makers, regardless of which government was in power. The absolute number of poor in the country has gone down and some states have less proportion of poor than even the national average. Yet, critics point out that even though vast resources have been allocated and spent, we are still far from reaching the goal. There is improvement in terms of per capita income and average standard of living, some progress towards the basic needs has been made. But when compared to the progress made by many other countries, our performance has not been impressive. Moreover, the fruits of develop-ment have not reached all sections of the population. Some sections of people, some sectors of the economy some regions of the country can compete even with developed countries in terms of social and economic development, yet, there are many others who have not been able to come out of the vicious circle of poverty.



6 Human Capital And Human Development

The two terms sound similar but there is a clear distinction between them. Human development is based on the idea that education and health are integral to human wellbeing because only when people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices which they value. Human capital treats human beings as a means to an gad end being the increase in productivity. In this view, any investment in education and health is unproductive if it does not enhance output of goods and services. In the human development perspective human beings are ends themselves. Human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity. Therefore, basic education and basic health are important in themselves, irrespective of their contri-bution to labour productivity. In such a view, every individual has a right to get basic education and basic health care, that is, every individual has a right to be literate and lead a healthy life.

HUMAN CAPITAL FORMATION IN INDIA: GREAT PROSPECTS

In this section we are going to analyse human capital formation in India. We have already learnt that human capital formation is the outcome of investments in education, health, on-the-job training, migration and information of these education and health are very important sources of human capital formation. We know that ours is a federal country with a union government, state governments and local governments (Municipal Corporations, Municipalities and Village Panchayats). The Constitution of India mentions the functions to be carried out by each level of government. Accordingly, expenditures on both education and health are to be carried out simultaneously by all the three tiers of the government.

Do you know who takes car& of education and health in India? Before we take up the analysis of the education sector in India, we will look into the need for government intervention in education and health sectors. We do understand that education and health care services create both private and social benefits and this reason for the existence of both private and public institutions in the education and health service markets. Expenditures on education and health make substantial long-term impact and they cannot be easily reversed; hence, government intervention ' essential. For instance, once a child is admitted to a school or health care centre where the required services are not provided, before the decision is taken to shift the child to another institution, substantial amount of damage would have been done.

Moreover, individual consumers of these services do not have complete information about the quality of services and their costs. In this situation, the providers of education and health services acquire monopoly power and are involved in exploitation. The role of government in this situation is to ensure that the private provides of these services adhere to the standards stipulated by the government and charge the correct price.

In India, the ministries of education at the union and state level, departments of education and various organisations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) regulate the education sector. Similarly, the ministries of health at the union and state level, departments of health and various organisations like Indian Council for Medical Research (ICMR) regulate the health sector. In a developing country like ours, with a large section of the population living below the poverty line, many of us cannot afford to access basic education and health care facilities. Moreover, a substantial section of our people cannot afford to reach super specialty health care and higher education. Furthermore, when basic education and health care is considered as a right of the citizens, then it is essential that the government should provide education and health services free of cost for the deserving citizens and those from the socially oppressed classes. Both, the union and state governments, have been stepping up expenditures in the education sector over the years in order to fulfil the objective of attaining cent per cent literacy and considerably increase the average educational attainment of Indians.

EDUCATION SECTOR IN INDIA

Growth in Government Expenditure on Education: This expenditure by the government is expressed in two ways (i) as a percentage of 'total government expenditure' (ii) as a percentage of Gross Domestic Product (GDP).

The percentage of 'education expenditure of total government expenditure' indicates the importance of education in the scheme of things before the government. The percentage of 'education expenditure of GDP' expresses how much of our income is being committed to the development of education in the country. During 1952-2002, education expenditure as percentage of total government expenditure increased from 7.92 to 13.17 and as percentage of GDP increased from 0.64 to 4.02. Throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. To this if we include the private expenditure incurred by individuals and by philanthropic institutions, the total education expenditure should be much higher.

Elementary education takes a major share of total education expenditure and the share of the higher / tertiary education (institutions of higher learning like colleges, polytechnics and universities) is the least. Though, on an average, the government spends less on tertiary education, 'expenditure per student' in tertiary education is higher than that of elementary. This does not mean that financial resources should be transferred from tertiary education to elementary education. As we expand school education, we need more teachers who are trained in the higher educational institutions; therefore, expenditure on all levels of education should be increased.

The per capita education expenditure differs considerably across states from as high as Rs. 34440 in Lakshadweep to as low as Rs. 386 in Bihar. This leads to differences in educational opportunities and attainments across states. One can understand the inadequcy of the expenditure on education if we compare it with the desired level of education expenditure as recommended by the various commissions. More than 40 years ago, the Education Commission (1964-66) had recommended that at least 6 percent of GDP be spent on education so as to make a noticeable rate of growth in educational achievements.

In December 2002, the Government of India, through the 86th Amendment of the Constitution of India, made free and compulsory education a fundamental right of all children in the age group of 6-14 years. The Tapas Majumdar Committee, appointed by the Government of India in 1998, estimated an expenditure of around Rs. 1.37 lakh crore over 10 years (1998-99 to 2006-07) to bring all India children in the age group of 6-14 years under the purview of school education. Compare to this desired level of education expenditure of around 6 per cent of GDP, the current level of a little over 4 per cent has been quite inadequate. In principle, a goal of 6 per cent needs to be reached—this has been accepted as a must for the coming years.

In the Union Budget 2000-05, the Government of India levied a 2 per cent 'education cess' on all union taxes. The government estimated to get a revenue of rs. 4,000-5,000 crore and the entire amount was earmarked for spending on elementary education. In addition to this, the government sanctioned a large outlay for the promotion of higher education and new loan schemes for students to pursue higher education.

Education Achievements in India: Generally, educational achievements in a country are indicated in terms of adult literacy level, primary education completion rate and youth literacy rate. These statistics for the years 1990 and 2000 are given.

Education Achievements in India

Sl.No.	Particulars	1990	2000
1.	Adult Literacy Rate (percent of people aged 15+)		
	1.1 Male	61.9	68.4
	1.2 Female	37.9	45.4
2.	Primary completion rate (percent of relevant age group)		
	2.1 Male	78	85
	2.2 Female	61	69
3.	Youth literacy rate (percent of people aged 15+ to 24)		
	3.1 Male	76.6	79.7
	3.2 Female	54.2	64.8

FUTURE PROSPECTS

Education for All — Still a Distant Dream: Though literacy rates for both — adults as well as youth — have increased, still the absolute number of illiterates in India is as much as India's population was at the time of independence. In 1950, when the Constitution of India was passed by the Constituent Assembly, it was noted in the Directives of the Constitution that the government should provide free and compulsory education for all children up to the age of 14 years within 10 years from the commencement of the Constitution. Had we achieved this, we would have cent per cent literacy by now.

Gender Equity — Better than Before: The differences in literacy rates between males and females are narrowing signifying a positive development in gender equity; still the need to promote education for women in India is imminent for various reasons such as improving economic independence and social status of women and also because women education makes a favourable impact on fertility rate and health care of women and children. Therefore, we cannot be complacent about the upward movement in the literacy rates and we have miles to go in achieving cent per cent adult literacy.

Higher Education — a Few Takers: The Indian education pyramid is steep indicating lesser and lesser number of people reaching the higher education level. Moreover, the level of unemployment among educated youth is the highest. data, in 2000, the unemployment rate of educated youth (Secondary Education and above) was 7.1 per cent and unemployment of people with up to primary education was only 1.2 per cent. Therefore, the government should increase allocation for higher education and also improve the standard of higher education institutions, so that students are imparted employable skills in such institutions.

The economic and social benefits of human capital formation and human development are well known. The union and state governments in India have been earmarking substantial financial outlays for development of education and health sectors. The spread of education and health services across different sectors of society should be ensured so as to simultaneously attain economic growth and equity. India has a rich stock of scientific and technical manpower in the world. The need of the hour is to better it qualitatively and provide such conditions so that they are utilised in our own Country.

INTRODUCTION

We know that studied how poverty was a major challenge facing India. We also came to know that the majority of the poor live in rural areas where they do not have access to the basic necessities of life.

Agriculture is the major source of livelihood in the rural sector. Mahatma Gandhi once said that the real progress of India did not mean simply the growth and expansion of industrial urban centres but mainly the development of the villages. This idea of village development being at the centre of the overall development of the nation is relevant even today. Why is this so? Why should we attach such significance to rural development when we see around us fast growing cities with large industries and modern information technology hubs? It is because more than two-third of India's population depends on agriculture that is not productive enough to provide for them; one-third of rural India still lives in abject poverty. That is the reason why we have to see a developed rural India if our nation has to realise real progress.

WHAT IS RURAL DEVELOPMENT?

Rural development is a comprehensive term. It essential focuses on action for the development of areas that are lagging behind in the overall development of the village economy. Some of the areas which are challenging and need fresh initiatives for development in India include.

- Development of human resources including
- literacy, more specifically, female literacy, education and skill development
- health, addressing both sanitation and public health
- Land reforms
- Development of the productive resources of each locality
- Infrastructure development like electricity, irrigation, credit, marketing, transport facilities including construction of village roads and feeder roads to nearby highways, facilities for agriculture research and extension, and information dissemination
- Special measures for alleviation of poverty and bringing about significant improvement in the living conditions of the weaker sections of the population emphasizing access to productive employment opportunities.

All this means that farming communities have to be provided with various means that help them increase the productivity of grains, cereals, vegetables and fruits. They also need to be given opportunities to diversify into various non-farm productive activities such as food processing. Giving them better and more affordable access to healthcare, sanitation facilities at workplaces and homes and education for all would also need to be given top priority for rapid rural development. It was observed earlier that although the share of agriculture sector's contribution to GDP was on a decline, the population dependent on this sector did not show any significant change. Further, after the initiation of reforms, the growth rate of agriculture sector decelerated to 2.3 per cent per annum during the 1990s, which was lower than the earlier years. Scholars identify decline in public investment since 1991 as the major reason for this. They also argue that inadequate infrastructure, lack of alternate employment opportunities in the industry or service sector, increasing casualisation of employment etc. further impede rural development. The impact of this phenomenon can be seen from the growing distress witnessed among farmers across different parts of India. Against this background, we will critically look at some of the crucial aspects of rural India like credit and marketing systems, agricultural diversification and the role of organic farming in promoting sustainable development.

AGRICULTURAL MARKET SYSTEM

Vegetables and fruits that we consume daily come from different parts of the country? The mechanism through which these goods reach different places depends on the market channels. Agricultural marketing is a process that involves the assembling, storage, processing, transportation packaging grading and distribution of different agricultural commodities across country.

Prior to independence, farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts. Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices. They also did not have proper storage facilities to keep back their produce for selling later at a better price. Do you know that even today, more than 10 per cent of goods produced in farms are wasted due to lack of storage? Therefore, state intervention became necessary to regulate the activities of the private traders.

Let us discuss four such measures that were initiated to improve the marketing aspect. The first step was regulation of markets to create orderly and transparent marketing conditions. By and large, this policy benefited farmers as well as consumers. However, there is still a need to develop about 27,000 rural periodic markets as regulated market places to realise the full potential of rural markets. Second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.

The current infrastructure facilities are quite inadequate to meet, he growing demand and need to be improved. Cooperative marketing, in realising fair prices for farmers' products is the third aspect of government initiative The success of milk cooperatives in transforming the social and economic landscape of Gujarat and some other parts of the country is testimony to the role of cooperatives.

However cooperatives have received a setback during the recent past due to inadequate coverage of farmer members, lack of appropriate link between marketing and processing cooperatives and inefficient financial management. The fourth element is the policy instruments like (i) assurance of minimum support prices (MSP) for 24 agricultural products (ii) maintenance of buffer stocks of wheat and rice by Food Corporation of India and (iii) distribution of food grains and sugar through PDS These instruments are aimed at protecting the income of the farmers and providing foodgrains at a subsidised rate to the poor. However, despite government intervention, private trade (by moneylenders, rural political elites, big merchants and rich farmers) predominates agricultural markets. The quantity of agricultural products, handled by the government agencies and consumer cooperatives, constitutes only 10 per cent while the rest is handled by the private sector.

Agricultural marketing has come a long way with the intervention of the government in various forms. The rapid commercialisation of agriculture in the era of globalisation offers tremendous opportunities for value addition of agro-based products through processing and this needs to be encouraged apart from awareness and training of the farmers to improve their marketing ability.

Emerging Alternate Marketing Channels: It has been realised that if farmers directly sell their produce to consumers, it increases their share in the price paid by the consumers. Some examples of these channels are Apni Mandi (Punjab, Haryana, Rajasthan); Hadaspar Mandi (Pune); Rythu Bazars (vegetable and fruit market in Andhra Pradesh) and Uzhavar Sandies (farmers markets in Tamil Nadu). Further, several national and multinational fast food chains are increasingly entering into contracts/ alliances with farmers to encourage them to cultivate farm products (vegetables, fruits, etc.) of the desired quality by providing them with not only seeds and other inputs but also assured procurement of the produce at pre-decided prices. Such arrangements will help in reducing the price risks of farmers and would also expand the markets for farm products.

SUSTAINABLE DEVELOPMENT AND ORGANIC FARMING

In recent years, awareness of the harmful effect of chemical-based fertilisers and pesticides on our health is on a rise. Conventional agriculture relies heavily on chemical fertilizers and toxic pesticides etc., which enter the food supply, penetrate the wate sources, harm the livestock, deplete the soil and devastate natural eco-systems. Efforts in evolving technologies which are eco-friendly are essential for sustainable development and one such technology which is eco-friendly is organic farming. In short, organic agriculture is a whole system of farming that restores, maintains and enhances the ecological balance. There is an increasing for organically grown food to enhance food safety throughout the world.

Benefits of Organic Farming: Organic agriculture offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilisers, pesticides etc. with locally produced organic inputs that are cheaper and thereby generate good returns on investment. Organic agriculture also generates incomes through international exports as the demand for organically grown crops is on a rise. Studies across countries have shown that organically grown food has more nutritional value than chemical, farming thus providing us with healthy foods. Since organic farming requires labour input than conventional farming, India will find organic farming an attractive proposition. Finally, the produce is pesticide-free and produced in an environmentally sustainable way.

Every Village — a Knowledge Centre

S. Swaminathan Research Foundation, an institution located in Chennai Tamil Nadu, with support from Sri Ratan Tata Trust, Mumbai, has established the Jamshedji Tata National Virtual Academy for Rural Prosperity. The Academy envisaged to identify a million grassroot knowledge workers who will be enlisted as Fellows of— the Academy. The programme provides an info-kiosk (PC with Internet and video conferencing facility, scanner, photocopier, etc.) at a low cost and trains the kiosk owner; the owner then provides different services and tries to earn a reasonable income. The Government of India has decided to join the alliance by providing financial support of Rs 100 crore.

Popularising organic farming requires awareness and willingness on the part of farmers to adapt to new technology. Inadequate infrastructure and the problem of marketing the products are major concerns which need to be addressed apart from an appropriate agriculture policy to promote organic farming. It has been observed that the yields from organic farming are less than modern agricultural farming in the initial years.

Therefore, small and marginal farmers

may find it difficult to adapt to large scale production. Organic produce may also have more blemishes and a shorter shelf life than sprayed produce. Moreover choice in production of off season crops quite limited in organic farming. Nevertheless, organic farming helps in sustainable development of agriculture and India has a clear advantage in producing organic products for both domestic and international markets.

CONCLUSION

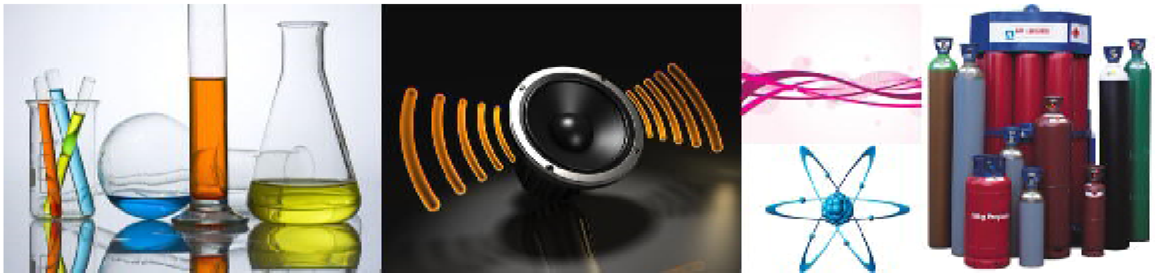
It is clear that until and unless some spectacular changes occur, the rural sector might continue to remain backward. There is a greater need today to make rural areas more vibrant through diversification into dairying, poultry, fisheries, vegetables and fruits and linking up the rural production centres with the urban and foreign (export) markets to realise higher returns on the investments for the products. Moreover, infrastructure elements like credit and marketing, farmer-friendly agricultural policies and a constant appraisal and dialogue between farmers' groups and state agricultural departments are essential to realise the full potential of the sector.

Today we cannot look at the environment and rural development as two distinct subjects. There is need to invent or procure alternate sets of ecofriendly technologies that lead to sustainable development in different circumstances. From these, each rural community can choose whatever will suit its purpose.

First of all, then, we need to learn from, and also try out when found relevant, practices from the available set of 'best practice' illustrations (which means success stories of rural development experiments that have already been carried out in similar conditions in different parts of India), to speed up this process of 'learning by doing'.

Organically Produced Cotton in Maharashtra

In 1995, when (an NO) first suggested that cotton, of chemical pesticides, could be grown organically the then Director of the Central Institute for Cotton Research, Nagpur, famously remarked, "Do you want India to go naked?" At present, as many as 130 farmers have committed 1,200 hectares of land to grow cotton organically on the International Federation of Organic Agriculture Movement's standards. The produce was later tested by the German Accredited Agency, AGRECO, and found to be of high quality. Kisan Mehta feels that about 78 per cent of Indian farmers are marginal farmers owning about less than 0.8 hectare but accounting for 20 per cent of India's cultivable land. Therefore, organic agriculture is more profitable in terms of money and soil conservation in the long run.



7

Growth and Changing Structure of Employment

Here we will look at two developmental indicators-growth of employment and GDP. Fifty years of planned development have been aimed at expansion of the economy through increase in national product and employment.

During the period 1960-2000, Gross Domestic Product (GDP) of India grew positively and was higher than the employment growth. However, there was always fluctuation in the growth of GDP. During this period, employment grew at a stable rate of about 2 per cent.

In the late 1990s: employment growth started declining and reached the level of growth that India had in the early stages of planning. During these years, we also find a widening gap between the growth of GDP and employment. His means that in the Indian economy, without generating employment, we have been able to produce more goods and services. Scholars refer to this phenomenon as jobless growth.

We have seen how employment has grown in comparison to GDP. Now it is necessary to know how the growth pattern of employment and GDP affected different sections of workforce. From this we will also be able to understand what types of employment are generated in our country.

Distribution of workforce by industrial sectors shows substantial shift from work to non-farm work.

In 1972-73, about 74 per cent of workforce was engaged in primary sector and in 1999-2000, this proportion has declined to 60 per cent. Secondary and service sectors are showing promising future for the Indian workforce. You may notice that the shares of these sectors have increased from 11 to 16 per cent and 15 to 24 per cent respectively.

The distribution of workforce in different status indicates that over the last three decades (1972-2000), people have moved from self-employment and regular salaried employment to casual wage work. Yet self-employment continues to be the major employment provider. Scholars call this process of moving from self-employment and regular salaried employment to casual wage work as casualisation of workforce. This makes the workers highly vulnerable.

INFORMALISATION OF INDIAN WORKFORCE

One of the objectives of development planning in India, since India's independence, has been to provide decent livelihood to its people. It has been envisaged that the industrialization strategy would bring surplus workers from agriculture to industry with better standard of living as in developed countries. We have seen in the preceding section, that even after 55 years of planned development, three-fifth of India workforce depends on farming as the major source of livelihood.

Economics argue that, over the years, the quality of employment has been deteriorating. Even after working for more than 10-20 years, why do some workers not get maternity benefit, provident fund, gratuity and pension? Why does a person working in the private sector get a lower salary as compared to another person doing the same work but in the public sector?

A small section of Indian workforce is getting regular income. The government, through its labour laws, protects them in various ways. This section of the workforce forms trade unions, bargains with employers for better wages and other social security measures. Who are they? To know this we classify workforce into two categories: workers in formal sectors, which are also referred to as organized and unorganized sectors. All the public sector establishments and those private sector establishments which employ 10 hired workers or more are called formal sector establishments and those who work in such establishments are formal sector workers. All other enterprises and workers working in those enterprises form the informal sector. Thus, informal sector includes millions of farmers, agricultural labourers, owners of small enterprises and people working in those enterprises as also the self-employed who do not have any hired workers.

Those who are working in the formal sector enjoy social security benefits. They earn more than those in the informal sector. Developmental planning envisaged that as the economy grows, more and more workers would become-formal sector workers and the proportion of workers engaged in the informal sector would dwindle. But what has happened in India? 93 per cent are in the informal sector. Out of 28 million formal sector workers, only 4.8 million, that is, only 17 per cent (4.8/28x100) are women. In the informal sector, male workers account for 69 per cent of the workforce.

Since the late 1970s, many developing countries, including India, started paying attention to enterprises and workers in the informal sector do not get regular income; they do not have any protection or regulation from the government. Workers are dismissed without any compensation. Technology used in the informal sector enterprises in outdated. Of late, owing to the efforts of the International Labour Organization (ILO), the Indian government has initiated the modernization of informal sector enterprises and provision of social security measures to informal sector workers.

UNEMPLOYMENT

It might have seen people looking for jobs in newspapers. Some look for a job through friends and relatives. In many cities, you might find people standing in some select areas looking for people to employ them for that's work.

Some go to factories and offices and give their bio-data and ask whether there is any vacancy in their factory and office. Many in the rural areas do not go out and ask for a job but stay home when there is no work. Some go to employment exchanges and register themselves for vacancies notified through employment exchanges. NSSO defines unemployment as a situation in which all those who, owning to lack of work, are not working but either seek work through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remuneration. There are a variety of ways by which an unemployed person is identified. Economists define unemployed person as one who in not able to get employment of even one hour in half a day.

There are three sources of data on unemployment: Repots of Census of India, National Sample Survey Organization's Reports of Employment and Unemployment Situation and Directorate General of Employment and Training Data of Registration with Employment Exchanges. Through they provide different estimates of unemployment, they do provide us with the attributes of the unemployed and variety of unemployment prevailing in our country.

Do we have different types of unemploy-ment in our economy? Economists call unemployment prevailing in Indian farms as disguised unemployment. What is disguised unemployment? Suppose a farmer has four acres of land and he actually needs only two workers and himself to carry out various operations on his farm in a year, but if he employs five workers and his family members such as his wife and children, this situation is known as disguised unemployment. One study conducted in the late 1950s showed about one third of agriculture workers in India as disguisedly unemployment in India.

We have noticed that many people migrate to an urban area, pick up a job and stay there for some time, but come back to their home villages as soon as the rainy season begins. Why do they do so? This is because work in agriculture is seasonal; there are no employment opportunities in the village for all months in the year. When there is no work to do on farms, men go to urban areas and look for jobs. This kind of unemployment is known as seasonal unemployment. This is also a common form of unemployment prevailing in India.

Though we have witnessed slow growth of employment, scholars says that in India, people cannot remain completely unemployed for very long because their because their desperate economic condition would not allow them to be so. You will rather find them being forced to accept jobs that nobody else would do, unpleasant or even dangerous jobs in unclean, unhealthy surroundings.

The government has taken many initiatives to generate acceptable employment, ensuring at least minimal safety and job satisfaction, through various measures.

GOVERNMENT AND EMPLOYMENT GENERATION

Recently the government passed an Act in Parliament known as the National Rural Employment Guarantee Act 2005. It promises 100 days of guaranteed wage employment to all adult members of rural households who volunteer to do unskilled manual work.

The families, which are living below poverty line, will be covered under the scheme. This scheme is one of the many measures that the government implements to generate employment for those who are in need of jobs in rural areas.

Since independence, the Union and state governments have played an important role in generating employment or creating opportunities for employment generation. Their efforts can be broadly categorised into two – direct and indirect. In the first category, government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies and hence provides employment directly to workers.

When output of goods and services from government enterprises increases, then private enterprises that supply materials to government enterprises will also raise their output and hence increase the number of employment opportunities in the economy. For example, when a government owned steel company increases its output, it will result in direct increase in that government company. Simultaneously, private companies, which supply inputs to the government steel company and purchase steel from it, will also increase their output and thus employment. This is the indirect generation of employment opportu-nities in the economy.

Many programmes that the government implements, aimed at alleviating poverty, are through employment generation. They are also known as employment generation pro-grammes.

All these programmes aim at providing not only employment but also services in areas such as primary health, primary education, rural shelter, rural drinking water, nutrition, assistance for people to buy income and employment generating assets, develop-ment of community assets by generating wage employment, construction of houses and sanitation, assistance for constructing houses, laying of rural roads, development of waste-lands /degrade lands.

CONCLUSION

There has been a change in the structure of workforce in India. Newly emerging jobs are found mostly in the service sector. The expansion of the service sector and the advent of high technology now frequently permit a highly competitive existence for efficient small scale and often individual enterprises or specialist workers side by side with the multinationals. Outsourcing of work is becoming a common practice. It means that a big firm finds it profitable to close down some of its specialist departments (for example, legal or computer programming or customer service sections) and hand over a large number of small piecemeal jobs to very small enterprises or specialist individuals, sometimes situated even in other countries. The traditional notion of the modern factory or office, as a result, has been altering in such a manner that for many the home is becoming the workplace. All of this change has not gone in favour of the individual worker. The nature of employment has become more informal with only limited availabity of social security measures to the workers. Moreover, in the last two decade, there has been rapid growth in the gross domestic product, but without simultaneous increase in employment opportunities. This has forced the government to take up initiatives in generating employment opportunities particularly in the rural areas.

Introduction

Some states in India are performing much better than others in certain area? Punjab, Haryana and Himachal Pradesh prosper in a agriculture and horticulture? Maharashtra and Gujrat industrially more advance than others? Kerala, popularly known as 'God's own country', has excelled in literacy, health care and sanitation and also attracts tourists in such large numbers? Why does Karnataka's information technology industry attract world attention?

It is all because these states have better infrastructure in the areas they excel than other states of India. Some have better irrigation facilities. Others have better transportation facilities, or are located near ports which makes raw materials required for various manufacturing industries easily accessible. Cities like Bangalore in Karnataka attract many multinational companies because the provide world-class communication facilities. All these support structures, which facilitate development of a country, constitute its infrastructure. How then does infrastructure facilitate development?

WHAT IS INFRASTRUCTURE?

Infrastructure provides supporting services in the main areas of industrial and agricultural production, domestic and foreign trade and commerce. These services include roads, railways, ports, airports, dams, power stations, oil and gas pipelines, telecommunication facilities, the country's educational system including schools and colleges, health system including hospitals, sanitary system including clean drinking water facilities and the monetary system including banks, insurance and other financial institutions. Some of there facilities have a direct impact on the working of the system of production while others give indirect support by building the social sector of the economy.

Some divide infrastructure into two categories – economics and social. Infrastructure associated with energy, transportation and communication are included in the former category whereas those related to education, health and housing are included in the latter.

RELEVANCE OF INFRASTRUCTURE

Infrastructure is the support system on which depends the efficient working of a modern industrial economy. Modern agriculture also largely depends on it for speedy and large-scale transport of seeds, pesticides, fertilisers and the produce by making use of modern roadways, railways and shipping facilities. Modern agriculture also has to depend on insurance and banking facilities because of its need to operate on a very large scale.

Infrastructure contributes to economic development of a country both by increasing the productivity of the factors of production and improving the quality of life of its people. Inadequate infrastructure can have multiple adverse effects on health. Improvements in water supply and sanitation have a large impact by reducing morbidity (meaning proneness to fall ill) from major waterborne diseases and reducing the severity of disease when it occurs. In addition to the obvious linkage between water and sanitation and health, the quality of transport and communication infrastructure can affect access to health care. Air pollution and safety hazards connected to transportation also affect morbidity, particularly in densely populated areas.

THE STATE OF INFRASTRUCTURE IN INDIA

Traditionally the government has been solely responsible for developing the country's infrastructure. But it was found that the government's investment in infrastructure was inadequate. Today, the private sector by itself and also in joint partnership with the public sector, has started playing a very important role in infrastructure development.

A majority of our people live in rural areas. Despite so much technical progress in the world, rural women are still using bio-fuels such as crop residues, dung and fuel wood to meet their energy requirement. They walk long distances to fetch fuel, water and other basic needs. The census 2001 shows that in rural India only 56 per cent households have an electricity connection and 43 per cent still use kerosene. About 90 per cent of the rural house holds use bio-fuels for cooking. Tap water availability is limited to only 24 per cent rural households. About 76 per cent of the population drinks water from open sources such as wells, tanks, ponds, lakes, rivers, canals, etc. Another study conducted by the National Sample Survey Organization noted that by 1996, access to improved sanitation in rural areas was only six per cent. Which shows the state of some infrastructure in India in comparison to a few other countries. Though it is widely understood that infrastructure is the foundation of development, India is yet to wake up to the call. India invests only 5 per cent of its GDP on infrastructure, which is far below that of China and Indonesia.

Some economists have projected that India will become the third biggest economy in the world a few decades from now. For that to happen, India will have to boost its infrastructure investment. In any country, as the income rises, the composition of infrastructure requirements changes significantly. For low-income countries, basic infrastructure services like irrigation, transport and power are more important. As economies mature and most of their basic consumption demands are met, the share of agriculture in the economy shrinks and more service related infrastructure is required. This is why the share of power and telecommunication infrastructure is greater in high-income countries.

Thus development of infrastructure and economic development go hand in hand. Agriculture depends, to a considerable extent, on the adequate expansion and development of irrigation facilities. Industrial progress depends on the development of power and electricity generation, transport and communication. Obviously, if proper attention is not paid to the development of infrastructure, it is likely to act as a severe constraint on economic development.

ENERGY

Why do we need energy? In what forms is it available? Energy is critical aspect of the development process of a nation. It is, of course, essential for industries. Now it is used on a large scale in agriculture and related areas like production and transportation of fertilizers, pesticides and farm equipment. It is required in houses and cooking, household lighting and heating. Can you think of producing a commodity or service without using energy?

Sources of Energy: There are commercial and non-commercial sources of energy. Commercial sources are coal, petroleum and electricity as they are bought and sold. The account for over 50 per cent of all energy sources consumed in India. Non-commercial sources of energy are firewood, agricultural waste and dried dung. These are non-commercial as they are found in nature/ forests.While commercial sources of energy are generally exhaustible (with the exception of hydropower), non-commercial sources are generally renewable. More than 60 per cent of Indian households depend on traditional sources of energy for meeting their regular cooking and heating needs.

Non-conventional Sources of Energy: Both commercial and noncommercial sources of energy are known as conventional sources of energy. There are tree other sources of energy which are commonly termed as non-conventional sources – solar energy, wind energy and tidal power. Being a tropical country, India has almost unlimited potential for producing all three types of energy if some appropriate cost effective technologies that are already available are used. Even cheaper technologies can be developed.

SUSTAINABLE DEVELOPMENT

Environment and economy are interdependent and need each other. Hence, development that ignores its repercussions on the environment will destroy the environment that sustains life forms. What is needed is sustainable development: development that will allow all future generations to have a potential average quality of life that is at least as high as that which is being enjoyed by the current generation. The concept of sustainable, development was emphasized by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.

Read the definition again. You will notice that the term 'need' and the phrase 'future generation' in the definition are the catch phrases. The use of the concept 'need' in the definition is linked to distribution of resources. The seminal report-Our Common Future-that gave the above definition explained sustainable development as 'meeting the basic needs of all and extending to all the opportunity to satisfy their aspirations for a better life'. Meeting the needs of all requires redistributing resources and is hence a moral issue. Edward Barbier defined sustainable development as one which is directly concerned with increasing the material standard of living of the poor at the grass root level – this can be quantitatively measured in terms of increased income, real income, education services, health care, sanitation, water supply etc. In more specific terms, and secure livelihoods that minimize resource depletion, environmental degradation, cultural disruption and social instability. Sustainable development is, in this sense, a development that meets the basic needs of all, particularly the poor majority, for employment, food, energy, water, housing, and ensures growth of agriculture, manufacturing, power and services to these needs.

The Brundtland Commission emphasises on protecting the future generation. This is in line with the argument of the environmentalists who emphasise that we ha a moral obligation to hand over the plant earth in good order to the future generation; that is, the present generation should bequeath a better environment to the future generation. At least we should leave to the next generation a stock of 'quality of life' assets no less than what we have inherited.

The present generation should promote development that enhances the natural and built environment in ways that are compatible with (i) limiting the human population to a level within the carrying capacity of the environment. The carrying capacity of the environment is like a 'plimsoll line' of the ship which is its load limit mark. In the absence of the plimsoll line for the economy, human scale grows beyond the carrying capacity of the earth and deviates from sustainable development (ii) technological progress should be input efficient and not input consuming (iii) renewable resources should be extracted on a sustainable basis, that is, rate of extraction should not exceed rate of regeneration (iv) for non-renewable resources rate of depletion should not exceed the rate of creation of renewal substitutes and (v) inefficiencies arising from pollution should be corrected.

STRATEGIES FOR SUSTAINABLE DEVELOPMENT

Use of Non-conventional Sources of Energy: India, as you know, is hugely dependent on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Thermal power plants emit large quantities of carbon dioxide which is a green house gas. It also produces fly ash which, if not used properly, can cause pollution of water bodies, land and other components of environment. Hydroelectric projects inundate forests and interfere with the natural flow of water in catchment areas and the river basins. Wind power and solar rays are good examples of conventional but cleaner and greener technologies which can be effectively used to replace thermal and hydro-power.

LPG, Gobar Gas in Rural Areas: Households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidized LPG is being provided. In addition, gobar gas plants are being provided through easy loans and subsidy. As t a large petroleum gas (LPG) is concerned, it is a clean fuel – it reduces households pollution to a large extent. Also, energy wastage is minimized. For the gobar gas plant to function, cattle dung is fed to the plant and gas is produced which is used as fuel while the slurry which is left over is a very good organic fertiliser and soil conditioner.

CNG in Urban Areas: In Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years. Wind Power: In areas where speech of wind is usually high, wind mills can provide electricity without any adverse impact on the environment. Wind turbines move with the wind and electricity is generated. No doubt, the initial cost of high. But the benefits are such that the high cost gets easily absorbed.

Solar Power through Photovoltaic Cells: India is naturally endowed with a large quantity of solar energy in the form of sunlight. We use it in different ways. For example, we dry our clothes, grains, other agricultural products as well as various items made for daily use. We also use sunlight to warm ourselves in winter. Plants use sola energy to perform photosynthesis. Now, with the help of photovoltaic cells, solar energy can be converted into electricity. These cells use special kind of materials to capture solar energy and then converted the energy into electricity. This technology is extremely useful for remote areas and for places where supply of power through grid or power lines is either not possible or proves very costly. This technique is also totally free from pollution.

Mini-hydel Plants: In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines generate electricity which can be used locally. Such power plants are more or less environment-friendly as they do not change the land use pattern in areas where they are located; they generate enough power to meet local demands. This means that they can also do away with the need for large scale transmission towers and cables and avoid transmission loss.

Traditional Knowledge and Practice: Traditionally, Indian people have been close to their environment. They have been more a component of the environment and not its controller. If we look back at our agriculture system, healthcare system, housing, transport etc., we find that all practices have been environment friendly. Only recently have we drifted away from the traditional system and caused large scale damage to the environment and also our rural heritage. Now, it is time to go back. One apt example is in healthcare. India is very much privileged to have about 15,000 species of plants which have medicinal properties. About 8,000 of these are in regular use in various systems of treatment including the folk tradition. With the sudden onslaught of the western system of treatment, we were ignoring out traditional systems such as Ayurveda, Unani, Tibetan and folk systems. These healthcare systems are in great demand again for treating chromic health problems. Now a days every cosmetic produce – hair oil, toothpaste, body lotion, face cream and what not – is herbal in composition. Not only are these products environment friendly, they are relatively free from side effects and do not involve large-scale industrial and chemical processing.

Biocomposting: In our quest to increase agricultural during the last five decades or so, we almost totally neglected the use of compost and completely switched over to chemical fertilizers. The result is that large tracts of productive land have been adversely affected, water bodies including ground water system have suffered due to chemical contamination and demand for irrigation has been going up year after year.

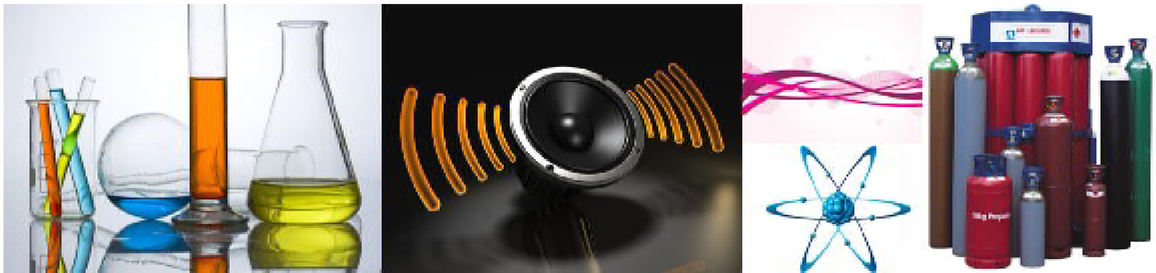
Farmers, in large numbers all over the country, have again started using compost made from organic wastes of different types. In certain parts of the country, cattle are maintained only because they produce dung which is an important fertiliser and soil conditioner.Earthworms can convent organic matter into compost faster than the normal composting process. This process is now being widely used. Indirectly, the civic authorities are benefited too as they have to dispose reduced quantity of waste.

Biopest Control: With the advent of green revolution, the entire country entered into a frenzy to use more chemical pesticides for higher yield .soon, the adverse impacts began to show; food products were contaminated; soil water bodies and even ground water were polluted with pesticides. Even milk, meat and fishes were found to be contaminated. To meet this challenge, efforts are on to bring in better methods of pest control. One such step is the use of pesticides based on plant products. Neem trees are proving to be quite useful. Several types of pest controlling chemicals have been isolated from neem and these are being used. Mixed cropping and growing different crops in consecutive years on the same land have also helped farmers.

In addition, awareness is spreading about various animals and birds which help in controlling pests. For example, snakes are one of the prime groups of animals which prey upon rats, mice and various other pests. Similarly, large varieties of birds, for example, owls and peacocks, prey upon vermin and pests. including insects. Lizards are also important in this regard. We need to know their value save them. Sustainable development has become a. catch phrase today. It is, indeed, a paradigm shift in development thinking. Though it has been interpreted in a number of ways, adherence to this path ensures lasting development and non –declining welfare for all.

Conclusion

Economic development, which aimed at increasing the production of goods and services to meet the needs of a rising population, puts greater pressure on the environment. In the initial stages of development, the demand for environmental resources was less than that of supply. Now the world is faced with increased demand for environmental resources but their supply is limited due to overuse and misuse. Sustainable aims at promoting the kind of development that minimizes environmental problems and meets the needs of the present generation without composing the ability of future generation to meet their won needs.



8

Stock Markets in India

STOCK MARKETS (SPECIALLY IN INDIAN CONTEXT)

A stock exchange is an organization which provides a platform for trading shares- either physical or virtual. The origin of the stock, market dates back to the year 1494, when the Amsterdam Stock Exchange was first set up. In a stock exchange, investors through stock brokers buy and sell shares in a wide range of listed companies. A given company may list in one or more exchanges by meeting and maintaining the listing requirements of the stock exchange.

In financial terminology, stock is the capital raised by a corporation, through the issuance and sale of shares. In common parlance, however, stocks and shares are used interchangeably. A shareholder is any person or organization which owns one or more shares issued by a corporation. The aggregate value of a corporation's issued shares, at current market prices, is its market capitalization. Stock broker buys and sells for an investor and does the work of arranging the transfer of stock from a seller to a buyer.

Importance of Stock Exchanges

- For efficient working of the economy and for the smooth functioning of the corporate form of organization, the stock exchange is an essential institution.
- an efficient medium for raising long term resources for business
- Help raise savings from the general public by the way of issue of equity debt capital
- attract foreign currency
- exercise discipline on companies and make them profitable
- investment in backward regions for job generation
- another vehicle for investors' savings

Stock Exchanges in India

The first company that issued shares

was the VOC or Dutch East India Company in. the early 17th century (1602). Since then we have come a long way. With over 25m shareholders today, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7,500 stockbrokers. The Indian capital market is significant in terms of the degree of development, volume of trading and its tremendous growth potential.

Stock exchanges provide an organised market for transactions in securities and other securities. There are 24 stock exchanges in the country, 21 of them being regional ones with allocated areas. Three other are set up in the reforms era, viz. National Stock Exchange (NSE), the Over the Counter Exchange India Limited (OTCEI) and Inter-connected Stock Exchange of India Limited (1SE) Important Stock Exchanges in India are Bombay Stock Exchange, popularly known as BSE and National Stock Exchange located in Bombay.

Stock Exchanges in India —

1. Ludhiana
2. New Delhi
3. Jaipur
4. Meerut
5. Ahmedabad
6. Rajkot
7. Indore
8. Vadodara
9. Bombay
10. Pune
11. Hyderabad
12. Mangalore
13. Bangalore
14. Emakulam
15. Coimbatore
16. Madras
17. Patna
18. Karipur
19. Bhubaneshwar
20. Calcutta
21. Guwahati

BSE

The Bombay Stock Exchange, or (BSE) is the oldest stock exchange in Asia located at Dalal Street in Mumbai, India. Established in the year 1875, it is the largest securities exchange in India with more than 6,000 listed Indian companies. BSE is also the fifth largest exchange in the world with market capitalization of US $1.6 trillion (2011). About 5000 companies are listed on the BSE.

Overall performance of BSE is measured using the BSE SENSEX or the BSE 30 index. This index is composed of 30 BSE stocks. These stocks are selected from specified group shares on the basis of market cap, liquidity, depth, trading frequency and industry representation. BSE 3D was introduced in 1986. Apart from BSE 30, there are various other indices used in the BSE: Some of these include BSE 100, BSE 200, BSE 500, BSE PSU, BSE MIDCAP. BSE SMLCAP etc.

One of the unique features inside the BSE includes the automatic online trading system known as

BOLT that ensures an efficient and transparent market for trading in equity, debt instruments and derivatives. BSE contributes phenomenally to the overall economic development and capital markets in India.

In 2005, the status of the exchange changed from an Association of Persons (AoP) to a full fledged corporation under the BSE (Corporatization and Demutualization) Scheme, 2005 and its name was changed to The Bombay Stock Exchange Limited.

Classification of companies listed in BSE

Group	Classification
A	Companies with large capital base, large shareholder base, and good growth record with regular dividends & greater volumes in secondary market.
B1	Relatively liquid scrips with good management & satisfactory growth prospects & volumes
F	Segment for Non-convertible debentures
G	Central and State Government Securities
Z	It comprises of companies not complying with clauses of the listing agreement and are not redressing the grievances of the investor.

Sensex

Sensex or Sensitive Index is a value-weighted index composed of 30 companies with the base 1978- 1979 = 100. It consists of the 30 largest and most actively traded blue chip stocks, representative of various sectors, on the Bombay Stock Exchange. Inclusion of the company is basically on the basis of market capitalization. The 30 companies in the index are revised periodically- some are replaced by others and new sectors may find representation as the economy evolves. The Sensex is generally regarded a mirror or barometer of the Indian stock markets and economy.

Demutualization

Demutualization is when management and ownership are separated. Ownership is divested from the brokers and the company becomes a public company. All stock exchanges are to be demutualised according to the Government law made in 2004. Demutualization, thus means that ownership, management and trading rights are separated in a stock exchange.

National Stock Exchange of India

The National Stock Exchange of India (NSE), is one of the largest and most advanced stock exchanges in India. In the year 1991 Pherwani Committee recommended to establish National Stock Exchange (NSE) in India. In 1992 the Government of India authorized IDBI for establishing this exchange. The National Stock Exchange of India was promoted by leading Financial Institutions and was incorporated in 1992. In 1993, it was recognized as a stock exchange. NSE commenced operations in 1994. It is located in Mumbai, the financial capital of India.

Following financial institutions were the promoters of National Stock Exchange:

- Industrial Development Bank of India (IDBI).
- Industrial Finance Corporation of India (IFCI).
- Industrial credit and Investment corporation of India (ICICI).
- Life Insurance Corporation of India (LIC).
- General Insurance Corporation of India (GIC).
- SBI Capital Markets Limited.
- Stock Holding Corporation of India Limited.
- Infrastructure Leasing and Financial services Limited.

The Standard & Poor's CRISIL NSE Index 50 or S&P CNX Nifty - Nifty 50 or simply Nifty is the leading index for large companies on the National Stock Exchange of India. The Nifty is a well diversified 50 stock index accounting for 21 sectors of the economy.

The CNX Nifty Junior is an index for companies on the National Stock Exchange of India. It consists of 50 companies on the National Stock Exchange of India. It has the second tier of stocks in terms of market cap and don't make it into Nifty.

The Inter-Connected Stock Exchange of India Limited (ISE)

The Inter-Connected Stock Exchange of India Limited (ISE) is being promoted by regional stock exchanges to set up a new national level stock exchange. The ISE would provide a national market in addition to the trading facility at the regional stock exchanges.

Indonext

BSE, Federation of Indian Stock Exchanges and regional stock exchanges have promoted Indonext. The regional stock exchanges that are part of Indonext include Madras Stock Exchange, Bangalore Stock Exchange, Interconnected Stock Exchanges of India, Ludhiana Stock Exchange and Vadodara Stock Exchange. Indonext is envisaged to bring liquidity and attention to stocks that are listed on RSEs.

Over the Counter Exchange of India (OTCEI)

The OTC Exchange of India (OTCEI) incorporated under the provisions of the Companies Act 1956, is a public limited company. It allows listing of small and medium sized companies. OTCEI is promoted by the Unit Trust of India, Industrial Development Bank of India, the Industrial Finance Corporation of India and others and is a recognised stock exchange.

SEBI

The capital markets in India are regulated by the Securities and Exchange Board of India. (SEBI) It was established in 1988 and given a statutory basis in 1992 on the basis of the Parliamentary Act- SEBI Act 1992 to regulate and develop capital market. SEBI regulates the working of stock exchanges and intermediaries such as stock brokers and merchant bankers, accords approval for mutual funds, and registers Foreign Institutional Investors who wish to trade in Indian scrips. Section 11(1) of the SEBI Act says that it shall be the duty of the Board to protect the interests of investors in securities.

SEBI promotes investor's education and training of intermediaries of securities markets. It prohibits fraudulent and unfair trade practices relating to securities markets, and inter trading in securities, with the imposition of monetary penalties, on erring market intermediaries. It also regulates substantial acquisition of shares and takeover of companies and calling for information from, carrying out inspection, conducting inquiries and audits of the stock exchanges and intermediaries and self regulatory organizations in the securities market.

SEBI has its head office in Mumbai and its three regional offices in New Delhi, Calcutta and Chennai.

SEBI's powers were enhanced in 2002 - strengthen the SEBS board, enlarge it to nine from six and appoint three full-time directors; given enhanced powers to conduct search and seizure etc.

SEBI and the Reforms

The Stock Exchange Seam of 1992 (Harshad Mehta) and the scam in 2000 (Ketan

Parekh) led to various measures by the Government to protect the interests of the small investors. SEBI introduced reforms like improved transparency, computerisation, enactment against insider trading, restrictions on forward trading, introduction of T + 2 system of settlement etc. The restriction and elimination of forward or Contango trading, referred to in India as 'Badla' is a bold step to check speculation and manipulation of the market. Some more steps taken by SEBI to strengthen markets are:

- SEBI reconstituted governing boards of the stock exchanges, introduced capital adequacy norms for brokers, and makes rules for making client/ broker relationship more transparent
- SEBI enforces corporate disclosures.
- Enforces ban on insider trading
- Protects retail investors
- SEBI is empowered to register and regulate mutual funds.
- introducing a code of conduct for all credit rating agencies operating in India.
- Clause 49 of the listing agreement that SEBI introduced mandates that all listed companies should have half the Directors on the Board as Independent Directors.

Sebi makes new rules 2009

The Securities and Exchange Board of India (SEBI) approved the "anchor investor" concept under which an investor can subscribe to up to 30 percent of the quota for institutional investors in an initial public offering. Under the new rules, an anchor investor would pay 25 percent of the total investment at the time of applying for the initial public offering, and the balance within two days of the closure of the issue. Such anchor investors would have to adhere to a lock-in period of one month from the date of the share allotment.

Capital Market Reforms

Since 1991 when the Government launched economic reforms, the following measures were taken.

- SEBI given statutory status- that is Act of Parliament
- Electronic trade
- Rolling settlement to reduce speculation
- FIIs are permitted since 1992
- setting up of clearing houses
- settlement guarantee funds at all stock exchanges
- compulsory dematerialization of share certificates so as to remove problems associated with paper trading; and speed up the transfer
- clause 49 of the listing agreement for corporate governance
- restrictions on PNs

Primary Market

The primary market is that part of the capital markets that deals with the issuance of new securities directly by the company to the investors. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue.

IPO

In the case of a new stock issue, this sale is called an initial public offering (IPO).

FPO (Follow on Public offer)

If the company already issued shares and is going to the market again with a new issue, it is called Follow on Public Offer (FPO).

Secondary Market

The secondary market is the financial market for trading of securities that have already been issued in an initial public offering. Once a newly issued stock is listed on a stock exchange, investors and speculators can trade on the exchange as there are buyers and sellers.

Types of shares

There are essentially two types of shares: common stock and preferred stock.

Preferred stock is generally issued to banks by the companies though retail investors are also eligible for them. They are preferred for the following reasons.

- In terms of dividend payment, generally, they are given dividends even if the common stock holders are not.
- When the company is to be closed, preference stock holders are given money first from the proceeds of the sale of the assets of the companies.
- They may have enhanced voting rights such as the ability to veto mergers or acquisitions or the right of first refusal when new shares are issued (i.e. the holder of the preferred stock can buy as much as they want before the stock is offered to others).

Derivatives

Derivative is a financial instrument. It derives from an underlying asset- securities, debt instruments, commodities etc. The price of the derivative is directly dependent upon the value of the underlying asset in the present and the projected future trends. Futures and options are the two classes of derivates.

Buyback of Shares

Buy back of shares is the process of a corporation's repurchase of stock it has issued. In the case of stocks, this reduces the number of shares outstanding, giving each remaining shareholder a larger percentage ownership of the company. This is usually considered a sign that the company's management is optimistic about the future and believes that the current share price is undervalued. The company also should have reserves to do so.

Reasons for buybacks include

- putting unused cash to use
- raising earnings per share
- reducing the number of shareholders to reduce the cost for servicing them, etc.

Shares bought back need to be cancelled and thus the total equity shrinks and the shareholders benefit. Buyback price is more than the market prices. Companies can buy back with the reserves but can not borrow to buyback. It is allowed in India since 1998.

Rolling Settlement

A Rolling Settlements is a mechanism of settling trades. In Rolling Settlements, trades done on a single day are settled separately from the trades of another day on the basis of Trade day + 2 days (T+2). Such petting of trades is done only for the day. As such, in Rolling Settlement, settlement is carried out on a daily basis. Since trades done on a given day can not be bunched with those of another day. Thus, speculation is drastically reduced.

Commodity Exchanges

Commodity exchanges are institutions which provide a platform for trading in 'commodity futures' just as how stock markets provide space-for trading in equities and their derivatives. They thus play a critical role in price discovery where several buyers and sellers interact and determine the most efficient price for the product. Indian commodity exchanges offer trading in 'commodity futures' in a number of commodities. Presently, the regulator, Forward Markets Commission allows futures trading in over 120 commodities. There are two types of commodity exchanges in the country: national level and regional. There are five national exchanges:

- National Commodity & Derivatives Exchange Limited (NCDEX) Multi Commodity Exchange of India Limited (MCX)
- National Multi-Commodity Exchange of India Limited (NMCEIL)
- ACE Derivatives and Commodity Exchange
- Indian Commodity Exchange (ICEX)

The unique features of national level commodity exchanges are:

- They are demutualized,
- They provide- online platforms or screen based trading
- They allow trading in a number of commodities and are hence multi-commodity exchanges.

They are national level exchanges which facilitate trading from anywhere in the country.

FMC (Forward Market Commission)

Forward Markets Commission (FMC) headquartered at Mumbai is a regulatory authority, which is overseen by the Ministry of Consumer Affairs and Public Distribution, Govt. of India. It is a statutory body set up in 1953 under the Forward Contracts (Regulation) Act, 1952. The Commission consists of 2-4 members.

It monitors and disciplines the working of the exchanges. It recognizes an exchange or can withdraw such recognition. It collects and whenever the Commission thinks it necessary publishes information regarding the trading conditions in respect of goods.

It makes inspection of the accounts and other documents of any recognized association or registered association or any member of such association whenever it considerers it necessary.

Forward Contracts (Regulation) Amendment Bill, 2010 was introduced in the Parliament. It seeks to make FMC into a Sebi-like regulator that is independent.

Forward Markets Commission is at present is part of the department of consumer affairs. FMC will' given more teeth to regulate exchanges and all market participants.

In addition, the bill proposes to increase the monetary penalty for contravention of the legal provision to up to Rs 25 lakh from a meagre Rs 1,000 at present.

Mutual Fund

Mutual fund — a financial intermediary that mops up money, from a group of investors, to invest in capital market so as to generate returns for the investors. Mutual fund does it for a fees, There are two types of MFs.

Open-ended or open mutual funds issue shares (units) to the investors directly at any time. The price of share is based on the fund's net asset value. Open funds have no time duration, and can be purchased or redeemed at any time on demand, but not on the stock market.

An open fund issues and redeems

shares on demand, whenever investors put money' into the fund or take it out.

It is a collective investment scheme issued by a fund. Only a fixed number of shares are issued in an initial public offering which may be called New Fund offering (NFO). They trade on an exchange.' Share prices are determined not by the total net asset value (NAV), but by investor demand.

Once the offering closes, new shares are rarely issued. They can be traded only on the secondary market (stock exchanges). Shares are not normally redeemable until the fund liquidates. On the other hand, an open-end fund where the fund company creates new shares and can redeem existing shares.

The total value of all the securities in the fund divided by the number of shares in the fund is called the net asset value.

Foreign institutional investors (FIIs)

Foreign institutional investors are organizations which invest huge sums of money in financial assets - debt and shares- of companies and in other countries- a country different from the one where they are incorporated. They include banks, insurance companies retirement or pension funds hedge funds and mutual funds.

Foreign individuals are not allowed to participate on their own but go through FIIs.

FIIs are allowed to 1veSt in the primary and secondary capital markets in India through the portfolio investment scheme (PIS). The ceiling for overall investment for His varies from company to company.

His called hot money invested in Indian equities and debt about $30 billion in 2010.The number of registered FIIs is 1,660 and that of registered sub-accounts is above the 5,000 mark. Besides buying equities from the market, have participated in Qualified Institutional Placements (QIPS), directly from the promoters requiring, huge capital.

SEBI prescribes norms to register FIIs and also to regulate FIT investments.

The FII's total investments in domestic markets amount to $60 billion since India allowed them to invest here in 1992.

Reasons for FIIs having India as a favorite destination

- growing economy
- corporate profits are high
- government policies are encouraging
- compared to other countries, India has brighter prospects

FII investment is referred to as hot, money for the reason that it can leave the country at the same speed at which it comes in.

Global Depository Receipts (GDR)

Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs) GDRs are designated in dollars euro.

The proceeds of the GDRS can be used for financing capital goods imports, capital expenditure including domestic purchase/ installation of plant, equipment and building and investment in software development, prepayment or scheduled repayment of earlier external borrowings, and equity investment in JVs in India.

GDRs are listed on London SE or Luxembourg or elsewhere. They are also called euro issues.

ADRs

American depository receipts are like shares. They are issued to US retail and institutional investors. They are entitled like the shares to bonus, stock split and dividend. They are listed either on Nasdaq or NYSE.

Like GDRS, they help raise equity capital in forex for various benefits like expansion, acquisition etc.

ADR route is taken as non-USA companies are not allowed to list on the US stock exchanges by issuing shares.

Similarly with Indian Depository Receipts (IDRS) as and when they are allowed.

Participatory Notes

Participatory notes are instruments used for making investments in the stock markets. In India, foreign institutional investors (FIIs) use these instruments for facilitating the participation of overseas funds like hedge funds and others who are not registered with the SEBI and thus are not directly eligible for investing in Indian stocks.

Any entity investing in participatory notes is not required to register with SEBI (Securities arid - Exchange Board of India), whereas all FIIs have to compulsorily get registered. Participatory notes are popular because they provide a high degree of anonymity, which enables large hedge funds to carry out their operations without disclosing their identity and the source of funds. KYC (know your customer norms are not applied here).

Since the source of funds is not revealed, the PNs are potentially unsafe. Therefore, SEBI in 2007 October imposed certain conditions like limits on the PNs that a single FII can issue etc. SEBI wants the PN holders to register with the SEBI and invest directly as India is a long term growth story. Sebi policy paid off with the number of FIIs registering with the regulator going upto over about 1750 (2011).

The SEBI action aims at ensuring that the quality of flows into stock markets and Indian forex market is clean.

Hedge Fund

A hedge fund is an investment fund open to only a limited range of investors. They are mostly unregulated. The term-hedge funds, is used to distinguish them from regulated investment funds such as mutual funds and pension funds, and insurance companies. Hedge funds are not allowed into India as they do not disclose data required by the SEBI.

Clearing House

An organisation which registers, monitors, matches and guarantees the trades of its members and carries out the final settlement of all futures transactions. The National Securities Clearing Corporation is the clearing house for the NSE.

Equity

Common stock and preferred stock that is, shares issued by the company. Also, funds provided to a business by the sale of stock.

Share

is a certificate representing ownership of the company that issued it. Shares can yield dividends and entitle the holder to vote at general meetings. The company may be listed on a stock exchange. Shares are also known as stock or equity.

Bond?

A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing.

Debenture

Debt not secured by a specific asset of

the corporation, but issued against the issuer's general credit- that is, it is unsecured debt. Investment earns an interest for the debenture holder. The following are various types of debentures

- convertible debentures can be converted into equity at a future date
- Non-convertible debentures will not be converted
- Partly convertible debentures will have some part converted into shares.

Bear & Bull

Bear is an investor who believes that market will go down.

Bull is an investor who believes that the market will go up- optimistic

A sustained period of falling stock prices usually preceding or accompanied by a period of poor economic performance known as a recession.

A stock market that is characterized by rising prices over a long period of time. The time span is not precise, but it represents a period of investor optimism, lower interest rates and economic growth. The opposite of a bear market.

Gilt

Gilt is a bond issued by the government. It is issued by the Central Bank of a country on behalf of the government. In India, Reserve Bank of India issues the treasury bills or guts. Gilt Edged Market is the market for government securities.

Blue Chip Share

Blue chip shares are the shares of the companies that are the most valuable. Companies that are profit making; usually dividend —paying and are liquid in the market- that is there is almost always in demand on the market.

Midcap Company

Generally, companies with a market capitalization that is very high are called large caps and the next one below is mid cap and the bottom one is small cap companies. Limits are not statutorily laid down and vary from institution to institution.

Small Investor

Ans. Market regulator SEBI set the investment limit for retail investors in an initial share sale offer to Rs 2 lakh. This will cut the numerous applications investors sometimes make in the name of relatives to get more shares.

Primary Dealers

The Reserve Bank of India introduced a system of Primary Dealers (PDs) in government securities market in 1995 with the objective to strengthen the infrastructure in the government securities market in order to make it vibrant, liquid and broad-based. The following can be the PD: subsidiaries of scheduled commercial banks and all India financial institutions and engaged predominantly in securities business and in particular the government securities market; or companies incorporated under the Companies Act, 1956 and engaged predominantly in securities business and in particular the government securities market; The company should have net owned funds ofRs.50 crore.

Market Depth

It is a dimension of market liquidity and it refers to the ability of a market to handle large trade volumes without a significant impact on prices.

Liquidity is the ease to find a trading partner for a given order.

Market depth means the following: The fraction of the overall market that is participating in the market's up or down move. The greater the depth, the more the companies that are participating.

Trading volumes means the number of shares traded.

Negotiated Dealing System

Negotiated Dealing System (NDS) is an electronic platform for facilitating dealing in Government Securities and Money Market Instruments.

Short Selling

The sale of a security made by an investor who does not own the security; The short sale is made in expectation of a decline in the price of a security, which would allow the investor to then purchase the shares at a lower price in order to deliver the securities earlier sold short. In short sale, shares are borrowed at a -fees/price and returned when the sell-buy operation is completed. Naked short selling, or naked shorting, is the practice of short-selling a financial instrument without first borrowing the security or ensuring that the security can be borrowed, as is conventionally done in a short sale. It is banned.

Market Capitalization

Price per share multiplied by the total number of shares outstanding; also the market's total valuation of a public company.

PIE Ratio

Also known as the P/E multiple, this is the latest closing price divided by earnings per share EPS. P/E is perhaps the single most widely used factor in assessing whether a stock is overvalued or cheap. A company's P/E should be looked at against those of similar companies, and against that of the stock market as a whole, since different industries and even different company are characterized by markedly different P/Es. In general, fast-growing technology companies have high P/Es, since the stock price is taking account of anticipated growth as well as current earnings. A high P/E is often a reflection of high expectations for a stock.

EPS

The portion of a company's profit allocated to each outstanding share of common stock. The amount is computed by dividing net earnings by the number of outstanding shares of common stock. For example, a corporation that earned Rs 10 million last year and has 10 million shares outstanding would report earnings per share of Rs. 1.

Insider Trading

trading occurs when any one with information related to strategic and price-influencing information purchases or sells stocks so as to make speculative profits.

Depository

A depository holds securities (like shares, debentures, bonds, Government Securities, units etc.) of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities. Benefits of a depository are reduction in paperwork involved in transfer of securities; reduction in transaction cost.

National Securities Depository Limited (NSDL)

In the depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts. Transfer of ownership of securities is done through simple account transfers. The enactment of Depositories Act in; 1996 paved the way for establishment of NDL, the first - depository in India.

NSDL offers facilities like dematerialization i.e., converting physical share certificates to electronic form; dematerialization i.e., conversion of securities in demat form into physical certificates etc.

Nasdaq

Nasdaq stands for the National Association of Securities Dealers Automated Quotation System. Unlike the New York Stock Exchange where trades take place on an exchange, Nasdaq is an electronic stock market that uses a computerized system to provide brokers and dealers with price quotes. It is an electronic stock market- first in the world- run by the National Association of Securities Dealers. Many of the stocks traded through Nasdaq are in the technology sector.

Dow Jones Index

The New York Stock Exchange (NYSE) index, which reflects the movement of the world's first stock market, It is composed of the 32 most traded stocks of the NYSE. Currently there are three Dow Jones Indices: The Dow Jones Industrial Average (DJ1A). The Dow Jones Transport Average (DJTA) and finally DJUA (Dow Jones Utility Average).

Important indices in the world

Market index is a number to indicate the average movement of prices of a securities market. It usually tracks select stocks.

- American Dow Jones Industrial Average and S&P 500 Index
- British FTSE 100: It is a share index of the 100 most highly capitalised companies listed on the London Stock Exchange. The index began in 1984 with a base level of l000.The index is maintained by the FTSE Group, an independent company which originated as a joint venture between the Financial Times and the London Stock Exchange.
    - French CAC 40
    - German DAX
    - Japanese Nikkei 225
    - Indian Sensex and Nifty
    - Australian All Ordinaries
    - Hong Kong Hang Seng Index
    - South Korea's Kospi.
    - Straits Times Index (STI) of Singapore
    - Bovespa index
    - RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow.
    - SSE (Shenzhen Stock Exchange) Composite Index-China
    - SSE (Shanghai Stock Exchange) composite index-China

Ethical Investing

A notable specialised index type is those for ethical investing indexes that include only those companies satisfying ecological or social criteria, e.g. those of Dow Jones Sustainability Index.

Ponzi Scheme of Pyramid Scheme

A Ponzi scheme is a fraudulent investment operation that pays high returns to investors and promises higher returns to those who join the scheme later. The payments are done from investors own money or money paid by subsequent investors rather than from any actual profit earned because it is not possible to earn such high returns on any investment. The system is destined to collapse because the earnings, if any, are less than the payments. The scheme is named after Charles Ponzi, who became notorious for using the technique after emigrating from Italy to the United States in 1903.

Decoupling

It means that a nation's economy may have an autonomous logic and need not be entirely dependent on the global economy. For example, if the world goes into a recession, all counties need not. India, for example grew at 6.7% (2008-09) while the USA and the west were contracting. Reflecting the economic realities, equity markets also perform autonomously after a point, it is called decoupling- that is, isolation from the rest.

China is more integrated with the world as its economy is driven by exports. However, even China is decoupled as it has a lot of domestic consumption driving its growth.

Clause 49

Clause 49 of the Listing Agreement to the Indian stock exchange came into effect in 2005.

It has been formulated for the improvement of corporate governance in all listed companies as it mandates that there should be certain independent directors on the Board of a Company.

IDR

Indian Depository Receipts are issued by a non-Indian company to Indian investors for its listing on Indian stock exchanges. It is like ADR.

Recommendation of Bimal Jalan Committee constituted by SEBI in Jan. 2010.

SEBI, in January 2010, had .appointed a committee under Dr. Bimal Jalan (former Governor of the Reserve Bank of India) to study and recommend changes on the ownership and governance of the Market Infrastructure Institutions ('MIIs') like stock exchanges, depositaries and clearing corporations.

The committee, on November 22, 2010, ha submitted its report. The report makes some particularly strong recommendations including not allowing such entities to get listed on stock exchanges.

The Report examines the nature of these institutions and emphasizes on the systemic importance of these MIIs for the economy. The report views these MIIs as producers of public good for society, which are essentially the price signals produced by a transparent and efficient market mechanism'.

The Report says that it is not possible to sever the regulatory role of the Mils from their more obvious role of serving as providers of infrastructure of the market and goes on to describe the characteristics and functions of these Mils emphasizing the following characteristics of such institutions:

1. In general MIIs are in the nature of public utilities.
2. All of them are vested with regulatory responsibilities, in varying degrees.
3. They have systemic importance to the economy.

In the above background, the Report highlights the conflict in the regulatory role' of these MIIs with their 'economic interests'.

The Committee suggests the raising of entry level barriers for the new exchanges. Only financial institutions and banks with a net worth of Rs. 1,000 crore could become anchor investors.

There will be a cap on the profits that the MFI shareholders can enjoy and on the remuneration of top executives of the exchange. Trading and clearing members will be ineligible to serve on the boards and the number of public interest directors should be at least equal to those representing the shareholders. No stock exchange will be allowed to list, a recommendation that should put an end to a long-standing controversy over conflict of interest. Stock exchanges and other Mils will have to fulfil the disclosures and corporate governance requirements of the listing agreement applicable to public companies. Clearly, The Jalan Committee has taken note of the fact that stock exchanges will continue to have regulatory functions. The bar has to be kept high to admit only genuine players.

Shariah Index

Shariah, the religious law of the followers of Islam, has strictures regarding finance and commercial activities permitted for believers. Arab investors only invest in a portfolio of 'clean' stocks. They do not invest in stocks of companies dealing in alcohol, conventional financial services (banking and insurance), entertainment (cinemas and hotels), tobacco, pork meat, defence and weapons.

The index will be rebalanced every quarter though stocks that do not comply (at some point of time) with Shariah statutes will be excluded immediately. National Stock Exchange S&P CNX Shariah Index and Dow Jones Islamic India Index are other Shariah benchmarks that are tracked by investors, Shariah-based equity investments do not allow investors to invest in heavily indebted.

Asia's oldest stock exchange, the Bombay Stock Exchange (BSE); launched its Shariah index in December 2010. The index, structured in partnership with Taqwaa Advisory Shariah Investment Solutions has 50 stocks selected from the BSE-500 bracket.

Infrastructure, capital goods, IT, telecom and pharmaceuticals shares will form a large chunk of the 'BSE Tasis Shariah-50 Index', as the new index is known. But no stock will have more than an 8% weightage. The stock screening has been done by Taqwaa Advisory (Tasis) scholar board, and the index construction, by BSE.

The new index will attract investments from Arab and European countries where Shariah funds are already popular.

Takeover Code 2011

Securities Exchange Board of India - India's capital markets regulator announced changes to revamp takeover code. While the formal takeover code has been in place since 1997, SEBI constituted a Takeover Regulation Advisory Committee (Achutan Committee) in 2009 to review the existing norms and make them more relevant for the present day scenario.

To start with, the trigger point for open offer is increased from is per cent level to 25 per cent and the open offer size, after the 25 per cent trigger is reached , is enhanced from the current 20 per cent to 26 per cent.

If an acquirer acquires at least 25 per cent stake in a company, then he has to come out with minimum 26 per cent open offer. This will result in making an acquirer ending up with "controlling" 51 per cent stake in the target company. Thus, the cost of acquisitions goes up substantially.

A Non-compete fee to be paid to the promoter is removed. It helps the smaller investors as all shares are equally priced and the promoter is not treated unequally. The reason for removal is that there is no need for additional price be given to a promoter by an acquirer over and above the fixed price paid to the ordinary shareholder arrived at after the valuation.

With the new take over code, only serious buyers can bid for a take over as 51% stake is required.

Sebi's new takeover code may put corporate groups with promoter holdings below 30 per cent at risk of losing majority. In Infosys Technologies, promoters hold just about 16 per cent, but then it can attempt a fight back drawing strength from its phenomenal reserves of over $3 billion. As per the new takeover code, an acquirer can buildup 25 per cent stake in Infy from the market, then make an open offer for 26 per cent to take a majority 51 per cent control.

VIX (Volatility index)

Market Volatility Index. An index designed to track market volatility as an independent entity. The Market Volatility Index is calculated based on option activity .and is used as an indicator of investor sentiment, with high values implying pessimism and low values implying optimism.

India VIX is India's volatility Index which is a key measure of market expectations of near-term V volatility conveyed by NIFTY stock index option prices. This volatility index is computed by NSE based on the order book of NIFTY Options. For this, the best bid-ask quotes of near and next-month NIFTY options, contracts which are traded on the F&O segment of NSE are used. India VIX indicates the investor's perception of the market's volatility in the near term i.e. it depicts the expected market volatility over the next 30 calendar days. Higher the India VIX values, higher the expected volatility and vice-versa.

Volatility Index (VIX) is a key measure of market expectations of near term volatility. As we understand, volatility implies instability. Thus when the markets are highly volatile, market tends to move steeply up or down and during this time volatility index tends to rise. Volatility index declines when the markets become less volatile. VIX is sometimes also referred to as the Fear Index because as the volatility index (VIX) rises, one should become fearful or careful as the markets can move steeply into any direction. Worldwide, VIX has become an indicator of how market practitioners think about volatility. Investors use it to gauge the market volatility and make their investment decisions.

VIX was first introduced by the Chicago Board of Options Exchange (CBOE) as the volatility index for the US markets in 1993 and it was based on S&P 100 Index option prices.

DOLLEX-30

The Stock Exchange, Mumbai launched 'DOLLEX-30' to track the performance of SENSEX shares b Dollar terms.

Like SENSEX, the base-year forDOLLEX-30 has been fixed as 1978-79 and base value at 100 points. While SENSEX reflects the growth from market value of constituent stocks over the base period in rupee terms, a need was felt to design a yardstick by which these growth values are measured in dollar terms. Such an index would reflect, in one value, the changes in both the stock prices and the foreign exchange variation.

Foreign investors would find this index to be very useful as it would help them measure their 'real returns after providing for exchange rate fluctuations. The dollex is calculated daily at the end of the trading session taking into consideration that day's Re/$ rate.

Futures

Futures are financial instruments based on physical underlying (commodity, equities etc.). A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future for a certain price.

Futures are part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment. Futures are different from forwards as the former are traded on exchange while the later may be merely a signed contract between two parties.

Options are a class of futures where the buyer or seller has the option whether to buy or not — put option is the right but not the obligation to sell. Call option is right but not the obligation to buy.

Taxation System In India: Concepts & Policies

Tax

Tax is a payment compulsorily collected from individuals or firms by government. A direct tax is levied on the income or profits of an individual or a company. The word 'direct' is used to denote the fact that the burden of tax falls on the individual or the company paying the tax and can not be passed on to anybody else. For example, income tax, corporate tax, wealth tax etc. An 'indirect' tax is levied on manufacturing and sale of goods or services. It is called 'indirect' because the real burden of such a tax is not borne by the individual or firm paying it but is passed on to the consumer. Excise duty, customs duty, sales tax etc.

Funds provided by taxation are used by governments to carry out the functions such as:

- military defense
- enforcement of law and order
- redistribution of wealth
- economic infrastructure — roads, ports etc
- social welfare
- social infrastructure like education, health etc
- social security measures like pensions for the elderly, unemployment benefits

Taxation System in India

India has a well developed tux structure. Being a federal country, the authority to levy taxes is divided between the central government and the state governments. The central government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like customs duties, excise duties and central sales tax (CST). CST is assigned to the States in which it is collected. (Art.269). The states have the constitutional power to levy sales tax apart from various other local taxes like entry tax, octroi, etc.

Taxation has always played an

important role in the formulation of the government's economic policy. Taxation policy in a developing country like India can play an important part to raise resources for growth, to bring in reduction in inequalities, to direct growth in backward regions, to reduce consumption of luxury goods, to direct investment into small scale sector, to promote savings etc. In the wake of the economic reforms, the tax structure and procedures have been rationalised and simplified. Since 1991, the tax system in India has undergone substantial rationalization reduced rates and slabs and better administration.

Some of the changes are:

- Broadening the tax base to include services, fringe benefits, stock market transactions etc.
- Reduction in customs and excise duties. Peak customs rate is today 10%.
- Lowering of corporate tax rates to 30%.
- Rationalizing the personal income tax rates and slabs starting- from 1997 'dream budget'
- Sales tax reforms at the State level as a preliminary step towards their integration into GST.
- introduction of VAT from 2005 at the state level; GST is expected to be introduced in 2013.
- Simplifying income-tax return filing procedures. For example, Saral, Towards better taxpayer services, in 2011-12, the JT department has introduced simple and user friendly SAHAJ (Form) for individual salary tax-payers; SUGAM for small tax-payers availing presumptive tax scheme. (For presumptive tax, see ahead).

Tax revenue as a percentage of GDP decreased initially, after reforms began in 1991 as rates came down and growth of economy was not very robust. Compliance also did not increase proportionate to rate reduction. Since the Tenth Plan period, there has been a consistent rise in tax collections but it dipped due to global financial crisis of post-2008 period. The share of direct taxes in the Centre's gross tax receipts is estimated at 56.3% in 2011-12. Centre's gross tax-GDP ratio is being projected at 10.5% in 2011-12. Further, by widening the service tax net, the revenue collections from service tax for 2011-12 have been pegged at Rs 82,000 crore with no increase in rates, up from Rs 71,309 crore in 2010-11.

Measures for Broadening Tax Base, Strengthening Compliance and Simplification

- Rates and slabs are rationalized
- service tax on more than 100 items at 12%
- adoption of VAT by almost all the states
- GST introduction
- Tax to be deducted at source on various items like interest on bank deposits; dividend distribution etc
- Quoting of permanent account number made compulsory for many transactions so more people can be brought into tax net.
- fringe benefit tax
- securities transactions tax

Other measures suggested are: minimizing exemptions and concessions; drastic simplification of laws and procedures; building a proper information system and computerization of tax returns, and a thorough revamping and modernization of the administrative and enforcement machinery.

TAX COLLECTIONS 2011 - 12

As can be seen from the table above, Government of India's tax receipts were about Rs.932440 crores of which direct taxes make up 56.3%. It helps government spend more on social projects.

The reasons for the tax collections being so healthy are:

- economy is growing at a robust pace-expected to grow at about 8.5% in the current fiscal
- incomes of individuals have gone up
- lower tax rates help compliance
- procedures are simple and citizen-friendly base has been widened a drive has been mounted to bring more people to pay income tax with proper investigation.

Direct Tax

As a proportion of gross tax revenue, direct taxes have been accounting for over a half of the total since 2007-08. Given the composition earlier in the decade, which had a large share of indirect taxes, this indicated robust levels of growth in direct taxes, particularly corporation tax. However, growth in corporation tax was moderate in 2008-09 and 2009-10 owing to demand slowdown on account of the impact of global crisis. At 22.4 per cent, growth in corporation tax rebounded in 2010-11. Growth in personal income tax fell appreciably in 2008-09 to 3.3 per cent and rebounded in 2009-10 to reach 15.4 per cent. With growth in 2010-11 marginally lower at 13.7 per cent, overall growth in direct taxes in 2010-11 was at 19.5 per cent. It was budgeted at about the same level in BE 2011-12 with a growth of 20.2 per cent envisaged in corporation tax and 18.2 per cent in personal income tax. The Budget for 2011-12 underscored the governance initiatives taken through information technology including online preparation and e-filing of income-tax returns, Electronic Clearing Services (ECS) facility for crediting of refunds directly in taxpayers' bank accounts; and electronic filing of tax deduction at source (TDS) documents. Also a category of taxpayers was notified who need not file a return of income as their income tax liability has been discharged at source.

Indirect Taxes

Reduction in excise duties was a key component of the fiscal stimulus package announced in the wake of the global financial and economic crisis and its impact on the economy. With the economy rebounding in 2009-10 and 2010-11 and healthy growth in indirect taxes in 2010-11 the budget for 2011-12 had the option of rollback of the excise duty cuts. But this was eschewed for two reasons: to see improved business margins, incentivize higher investment rates and to facilitate introduction of the goods and services tax (GST). While holding the peak non-agricultural custom duty rates at 10 per cent, the Budge for 2011-12 sought to rationalize three rates of 2 per cent, 2.5 per cent, and 3 per cent a the middle level of 2.5 per cent.

Cost of Direct Tax Collection

Buoyant economic growth along with higher tax compliance have led to a desirable decline in the cost of direct tax collections as a proportion of total direct tax collections: all-time low of 0.54 per cent in 2007-08.That is, the income-tax department spends 54 paise for every Rs 100 direct tax collected by it, which is among the lowest in the world. The income tax department has a tax base of 3.5 crore assesses.

Income-tax slabs and rates

10 per cent rate on a slab extending up to Rs 5 lakh. Likewise, the 20 per cent rate will now apply on income slabs beyond Rs 5 lakh and up to Rs. 10 lakh. The maximum marginal rate of 30 per cent on an income slab of above Rs 10 lakh.

Service Tax

Service tax was first imposed in 1994. Today the rate is 12% and a 3% education cess is additionally imposed. More than 100 services are being taxed. Tax analysts said that widening the service tax net is the first step before rolling' out a comprehensive GST. India's service tax collection for the Financial Year 2010-11 was estimated at Rs 69,400 crore and for 201 1-12, it is expected to increase to Rs 82,000 crore as per the Union Budget projections.

Major services that are currently taxed include telephone, insurance, brokerage, banking and financial services, courier, port services, etc. Some of the minor activities on which service tax has been recently imposed include beauty parlours, pandals or tent house services, dry cleaning, cable operators, etc.

Telephone services yield the maximum amount.

The service sector has emerged as an important area of economic activity. Reasons for taxing services

- Its share in the country's Gross Domestic Product (GDP) has increased from about 28% in 1951, to 55% (2011).
- Taxing services is important to raise resources and increasing the tax-GDP ratio
- service providers should share the tax burden with others-industry
- as the share of industry in GDP decreases while that of services expands, the tax base shrinks unless services are taxed.
- failure to tax services distorts consumer choices, encouraging spending on services at the expense of goods and savings.
- as most of the services that are likely to become taxable are positively correlated with expenditure of high income households, subjecting them to taxation will improve equity.

Service Tax and Indian Constitution

In the Seventh Schedule to the Constitution, under Article 246, the item relating to "taxes on services" was not specifically mentioned in any entry either in the Union List or in the State List.

However, Entry 97 of the Union List empowers Parliament to make laws in respect of any other matter not enumerated in List II (State List) or List III (Concurrent List), including any tax not mentioned in either of those lists. Since "taxes on services" is not there in any of the lists, service tax was levied by the Central Government in exercise of the powers under Entry 97 of the Union List.

The 88th amendment to the Constitution (2004) amended Article 270 (made it divisible) and inserted in the Union List (List I) entry No. 92C — 'taxes on services'.

The amendment to the Constitution places services tax formally under the Union List, This will pave the way for the Centre to levy and collect the tax.

The amendment becomes redundant with the introduction of GST in 2011 where the services will be jointly taxed by Centre and States.

GST? Evaluate its pros & cons?

Goods and Services Tax is a multi-point sales tax with set off for tax paid on purchases of inputs. There is no cascading (tax on tax) effect as there is deduction or credit mechanism for taxes paid for the inputs. The tax is levied on the value added and on consumption only. Total burden of the tax is exclusively borne by the domestic consumer. Exports are not subject to GST.

In the Union Budget for the year 2006-2007, Finance Minister proposed that India should move towards national level Goods and Services Tax that should be shared between the Centre and the States. World over, goods and services are integrated and taxed as a comprehensive domestic indirect taxation system based on value addition. They attract the same rate of tax. That is the foundation of a GST. The basis of GST is value addition.

The goods and service tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture and sale of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatments of manufacturing and service sector. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, Central sales tax, State level sales tax, entry tax, etc and eliminate the cascading effects tax on tax.

It is aimed at forging a common domestic market, removing multiplicity of taxes, eliminating the cascading effect of tax on tax, making the prices of the Indian products competitive and, above all, benefiting the end consumers

The central and state governments moved closer to ushering in a nationwide goods and services tax on April 1, 2011, a reform intended to cut business costs and boost government revenue. The reform would eliminate multiple indirect taxes levied by states and the central government, leading to a reduction in the average tax burden on companies and a rise in the country's tax-to-GDP ratio.

The GST is an indirect tax that would replace existing levies such as excise duty, service tax, and value-added tax (VAT).Both the states and the central government would impose the tax on almost all goods and services produced in India or imported. Exports would not be subject to GST. For the first two years of operation, the proposal is for two rates both at the federal and state levels, converging to a single rate in the third year. Producers would receive credits for tax paid earlier, which would eliminate multiple taxation on the same product or service. Direct taxes, such as income tax, corporate tax and capital gains tax would not be affected.

Eliminating a multiplicity of existing indirect taxes would simplify the tax structure, broaden the tax base, and create a common market across states and centrally administered districts.

Increased compliance and fewer exemptions to GST would lift India's federal tax-to GDP ratio from the 11.8 percent it currently estimates for the financial year 2012/13. At the same time GST would lower the average tax burden for companies that now pay cascading taxes on top of taxes through the production process.

By lowering business costs it would

boost economic growth and increase exports, proponents argue, and bring India in line - with practices in many developed economies.

Reducing production costs would make exporters more competitive.

The GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the central government and the state governments for reasons cited above.

For the first year: 10 percent of CGST of Centre and 10% of SGST of states for goods and 6 percent each for essential items 8% each for services. Thus, it is dual rate. Also, goods and services are taxed separately initially.

The higher rate would come down to 9 percent in the second year, and the two rates would converge at 8 percent in the third year.

Yes. Goods deemed necessary or of basic importance would be taxed at a lower rate. The, government will review the various lists of exempted goods to align them at the federal and state levels.

Alcohol, petroleum and electricity would not come under GST.

GOI will compensate states for potential lost revenue and central government has assured states that if needed, it would increase a 50,000 crore -rupee ($10.6 billion) fund that the 13th Finance

Commission recommended as an incentive for the states to buy into GST.

The legislation to make constitutional amendments needs to be finalised and the mechanism for administering the tax needs to be created. The government also needs to set up the technology infrastructure to manage the tax- TAGUP.

The GST is initially intended to be revenue-neutral but is eventually expected to increase the lax collections due to more efficient collection, expanded base, transparency and increased compliance.

Implementation of a comprehensive GST would lift India's economy of over $1 trillion by between 0.9 percent and 1.7 percent, according to a report by the New Delhi-based economic think tank the National Council of Applied Economic Research. Exports would rise by between 3.2 percent and 6.3 percent, while imports would increase 2.4 percent to 4.7 percent, the study found.

Constitutional Amendment for GST

Constitution (One Hundred and Fifteenth Amendment), Bill, 2011 (GST Bill)

Constitution (One Hundred and Fifteenth Amendment), Bill, 2011 (OST Bill) was introduced in the Parliament in the budget session in March 2011, deals with GST. The Bill seeks to introduce Goods and Services Tax (GST) and the GST Council. As per the existing structure of indirect taxation, the Parliament has the power to make laws on the manufacture of goods and the provision of services (Union List) while the State Legislatures have the power to make laws on the sale and purchase of goods within their respective states (State List). The Parliament has retained the exclusivity to make laws pertaining to sale of goods in the course of inter-state trade or commerce.

Definition of Goods and Services Article 366

The above Article which defines 'Goods and Services Tax' to mean, any tax on supply of goods or services of both except taxes on the supply of:

- Petroleum Crude;

- High Speed Diesel
- Petrol
- Natural Gas
- Aviation - Turbine Fuel; — and
- Alcoholic Liquor for human consumption.

Seventh Schedule

The Union Government has the exclusive power to levy excise duty on the manufacture or production of the following

- Petroleum Crude
- High Speed diesel
- Petrol
- Natural Gas
- Aviation Turbine Fuel
- Tobacco and Tobacco Products

The State Governments shall have the power to levy tax on the sale (other than in the course of inter-state trade or commerce) of petroleum crude, high speed diesel, petrol, natural gas, aviation turbine fuel and alcoholic liquor for human consumption. In Article 249 The Parliament has been vested with the power to make laws pertaining to GST on behalf of the state Legislature in circumstances of national interest. The power to make such laws would be pursuant to a resolution passed by the Council of States supported by not less than a two-thirds majority of the members present and voting. Power of Parliament to make laws on subjects in State List in the case of Emergency — Article 250.

The Parliament has been vested with the power to makes laws pertaining to GST on behalf of the State Legislature when there is a proclamation of Emergency.

GST Council — Article 279A

The President shall constitute a GST Council within sixty days from the Commencement of the GST Act.

Membership of the GST Council

The Union Finance Minster would be the Chairperson, the Union Minister of State for Revenue shall be one of the members, the Finance Minister or any other minister nominated by each State Government shall be the members of the GST Council. The Members of the GST Council shall decide on the Vice-Chairperson of the GST

Council for such period as decided by the members.

Functions of the GST Council

The GST Council while being guided by the need for a harmonized structure goods and services tax and for the development of a harmonised national market for goods and services shall make recommendations to the Union and the States on:

- Taxes, cesses and surcharges levied by the Union and the States and local bodies which may be subsumed within the GST
- Exemptions from GST for such goods and services
- Threshold limit of turnover below which GST may be exempted
- The GST rates
- Any other matter relating to GST

Every decision of the GST Council taken at a meeting shall be with the consensus of all the members present at the meeting.

GST Dispute Settlement Authority — Article 279B

The Parliament, by law, will provide for the creation of a Goods and Services Tax Dispute Settlement Authority (DSA) which shall adjudicate any dispute or complaint referred to the DSA by the State Government or the Union Government arising out of deviation from any recommendation of the GST Council which results in the loss of revenue to the State Government of the Union Government or affects the harmonized structure of the GST.

The DSA shall consist of three members namely, the Chairperson, who has been a Supreme Court Judge or the Chief Justice of a High Court, appointed by the President, recommended by the Chief Justice of India; the remaining members shall be persons who shall have expertise in the field of law, economics or public affairs appointed by the President recommended by the GST Council.

The DSA shall pass suitable orders including interim orders

Only the Supreme Court shall exercise jurisdiction over such adjudication or dispute or complaint.

Fiscal Autonomy Issues

Constitutional amendments are required to enable the Centre and the states to impose tax on the same base of goods and services. Currently, the states cannot impose tax on services. They also can not impose tax on manufacturing of goods. Centre cannot levy tax sales tax.

States feel that their fiscal autonomy is being eroded for the following reasons:

- they are surrendering the power to sales tax
- they can not change rates according to their fiscal needs
- all states can not have the same rates
- centre may not compensate the states fully
- The position of states is rejected on the other points for the following reasons
- centre is all surrendering and sharing its powers regarding service tax
- and union excise duties
- states are free to tax sin goods like liquor and also the petroleum products

It is said that like VAT, GST would also increase the revenue of the states as they will have powers to impose tax on services, which are growing at a rapid pace. However, in case of Contentious federal issues on GST.

GST rates, the division of taxing powers between the Centre and the states, compensation amount; exemptions and on certain design elements of the GST.

Goods and Services Tax (GST): Challenges for implementation.

The GST is a necessary condition for a common market to exists, this permits free and unimpeded movement of goods and services across a federation, thus encouraging efficient regional specialization.

Such harmonization will significantly reduce the vertical imbalance between the Centre and the states by enhancing the tax base of the states. It is going to be the biggest ever tax reform in India.

Challenges to address:

- Integration of a large number of Central & State Taxes
- multiplicity of taxes and tax rates to be unified
- federal distribution of powers to levy and collect taxes
- necessary constitutional amendments.
- Rationalisation of thresholds and exemption limits.

- Standardisation of systems and procedures.
- broad based computerizations across the Nation.
- Dispute settlement procedure and machinery.
- Training of tax administrators and assessee.
- Protecting and balancing the present and future revenues of the Centre and the States.
- Safeguarding the interests of less developed States with lower revenue potential.
- Taxing of Alcohol, tobacco, petroleum products which are out of the GST regime.

GST and Fiscal Federalism

Being the largest indirect tax reform requiring the centre and the states to adjust their constitutional taxing powers, GST has opened up fiscal federal challenges like never before. There is mutual surrender of powers to a uniform national taxation system where both gain. But there are apprehensions of loss of fiscal autonomy by states and central dominance as mentioned above.

The Constitutional changes proposed and being debated by the Empowered Committee of State Finance Ministers are likely to bring the federal units together for a new and innovative system of fiscal federal sharing and cooperation

Technology Advisory Group for Unique Projects (TAGUP)

An effective tax administration and financial governance system calls for creation of IT projects which are reliable, secure and efficient. IT projects like Tax Information Network, New Pension Scheme, National Treasury Management Agency, Expenditure Information Network, Goods and Service Tax, are in different stages of roll out. To look into various technological and systemic issues, Finance Minister announced in the Union Budget 2010-11 to set up a Technology Advisory Group for Unique Projects under the Chairmanship of Shri Nandan Nilekani. It has been set up in mid-2010.

Tax Reforms in India

Since the beginning of the last decade as a part of the economic reforms programme, the taxation system in the country has been subjected to consistent and comprehensive reform. The need for the tax reforms arises from the fact that

- tax resources must maximised
- international competitiveness must be imparted to the Indian economy
- transaction costs must be reduced -
- the high-cost nature of Indian economy needs to be corrected so that
- compliance increases
- equity improves
- investment flows

On the direct tax front, the reforms are the following:

- Reduction and rationalization of rates- there are only three rates of income tax today with the highest rate at 30%
- Simplification of procedures
- Strengthening of administration
- Widening of the tax base to include more tax payers in the tax net
- Exemptions are gradually being withdrawn'
- MAT was introduced for the 'zero

tax' companies

- The Direct Tax Code of 2010 is meant to replace the outdated Income Tax Code of 1961.

Indirect Taxes

- Reduction in the peak tariff rates- 10% is the peak customs duty today which was more than a 90% reduction since 1991.
- The number of slabs has come down drastically
- There is a progressive change from specific duty to advalorem tax
- VAT is introduced
- GST is being rolled out by 2011
- Extension of service tax to more than 1.00 items at 10% rate

Tax expenditure

Tax expenditure refers to revenue forgone as a result of exemptions and concessions (personal, corporate, indirect tax). It was introduced for the first time in 2006-07 Union Budget. The revenue foregone due to tax incentives in 2010-11 is estimated at Rs 5,60,276 crore. Such exemptions have been justified for promoting balanced regional growth, dispersal of industries, neutralisation of disadvantages on account of location, and incentives to priority sectors, including infrastructure. These should be subject to a sunset clause, as tax exemptions often create pressure groups for their perpetuation.

While some may be justified as they enhance investment and generate more taxes for the government, others are not.

Such exemptions and concessions can distort resource allocation and stunt productivity. They also result in a multiplicity of rates, legal complexities, classification disputes, litigation etc.

If these exemptions are rationalized, they can help the government spend more on social and infrastructure and help reduce the fiscal deficit.

G-20 and Bank Tax

Group of 20 saw the European countries like Germany and France propose a ban tax on their transactions so that fund could be mobilised in order to bail out future bank failures. The idea is to avoid taxing ordinary people. India along with Brazil and other countries opposed it on the following grounds

- Regulation is the remedy
- Banks can pay the tax and not shed their reckless behavior
- It may in fact induce them to be more reckless as there is a ready fund available and bailout is guaranteed.
- India has a well regulated banking system and so did not suffer the same fate as the banks in developed economies. The problems of the advanced countries should not be imposed on others
- banks, as private entities, would simply push the added costs onto consumers.

Tax Havens

A tax haven is a country or territory where certain taxes are levied at a low rate or not at all. Individuals and/or corporate entities can find it attractive to move themselves to areas with reduced or nil taxation levels. This creates a situation of tax competition among governments. Different jurisdictions tend to be havens for different types of taxes, and for different categories of people and/or companies. For example, income tax, wealth tax or corporate tax etc.

The important features of a tax haven arte:

- nil or nominal taxes;
- lack of effective exchange of tax information with foreign tax authorities, that is, personal finance information is not shared with other countries
- no requirement for a substantive local presence; and
- self-promotion as an offshore financial center.

Switzerland, Singapore, the Cayman Islands, Monaco, Luxembourg and Hong Kong are among 45 territories blacklisted by the Organisation for Economic Co-operation and Development and threatened with punitive financial retaliation for their banking secrecy.

Tax Incidence

It shows the entity on whom tax us imposed. It is different from the tax burden as shown below, if government increases tax on petrol, oil companies may absorb it, if competition is intense or they may pass it on to private motorists. Tax incidence here refers is on companies and the burden may be on the consumer.

Tax Burden

It means those who actually pay taxes from whom tax is collected. Depending on the market forces involved, a tax can be absorbed by the seller or by the buyer (in the form of higher prices), or by a third party like sellers' employees in the form of lower wages.

Tax Base

The value of goods, services and incomes on which tax is imposed. When economists speak of the tax base being broadened, they mean a wider range of goods, services, income, etc. has been made subject to a tax. In the case of income tax, the tax base is taxable income. Some kinds of income are excluded from the definition of taxable income, such as savings. For sales tax, the tax base is the value/volume of items that are subject to tax; essential goods, for example, are not part of the tax base.

Tax rate

It indicates how much tax is due from each source. Some tax systems have high rates but have a narrow base allowing generous deduction of business expenses. Other tax systems have a wide base with few exemptions and lower rates.

Tax Shelters

Any technique which allows one to legally reduce or avoid tax liabilities. It is a way in which the taxpayer can invest his income in a particular kind of investment that gives tax concessions.

Difference between tax avoidance and tax evasion: There are provisions in the law that allow one to save and invest in a manner that leads to reduction in taxable income, if these provisions are used for the benefit, it is called tax avoidance. It is lawful to take all available tax deductions.

Tax evasion, on the other hand, is a punishable offence. Tax evasion typically involves failing to report income, or improperly claiming deductions that are not authorized.

Hidden taxes

Hidden taxes are taxes that are

concealed in the price of articles that one buys. Hidden taxes are also referred to as implicit taxes. The most well-known form of the hidden tax is the indirect tax. Examples of hidden taxes are import duties.

Differentiate between Proportional, progressive and regressive tax?

An important feature of tax systems is whether they are proportional tax (the tax as a percentage of income is constant over all income levels), progressive tax (the tax as a percentage of income rises as income rises), or regressive tax (the tax as a percentage of income falls as income rises). Progressive taxes reduce the tax incidence on people with smaller incomes, as they shift the incidence disproportionately to those with higher incomes.

Ad Valorem

A Latin term meaning "according to worth," referring to taxes levied on the basis of value. Taxes on real estate and personal property are ad valorem. Luxury goods are taxed higher even if they weigh the same or number the same as ordinary goods.

Compound duties are a combination of value and other factors based on which tax is imposed.

Excise Duty

Excise duty is a tax on manufacture and is levied on the manufacture of goods within the country.

Customs Duty

When goods are imported or exported, customs duty is imposed and collected by the Union Government. Peak customs duty today is 10%.

Negative Income Tax

Subsidy is a negative income tax. It is a taxation system where income subsidies are given to persons or families that are below the poverty line. The government will send financial aid to a person who files an income tax return reporting an income below a certain level.

Octroi

Entry 52 of the State List, VII Schedule, which specifies tax on the entry of goods into a local area is the octroi. Octroi has been a main source of revenue for most of the urban local bodies in India. It is criticized for the fact that it is an obsolete method of tax collection and involves stoppage of vehicles at the check posts outside the city limits, thereby obstructing a free flow of vehicular traffic; waste of business hours; loss of fuel etc.

Tax Buoyancy

It refers to the percentage change in tax revenue with the growth of national income. That is growth based increase in tax collections.

Tax Elasticity

Tax elasticity is defined as the percentage change in tax revenue in response to the change in tax rate and the extension of coverage. Buoyancy, on the other hand is the response to economic growth when the base increases but there is no change in the rate.

Tax Stability

It means no frequent changes and continuity of policy in a predictable and transparent manner. Although revenue from different taxes varies from year to year, revenue stability is desirable because it makes it easier for a government to build a credible spending and borrowing plan for the year ahead. Taxes whose revenue is relatively stable contribute to overall revenue stability. Market players also can plan better.

Pigovian Tax

The Pigovian tax is imposed on bodies that have a negative externality. For example, pollution. Externality means impact of one person's actions on the well being of an outsider (bystander or third party). For example, the seller and consumer of cigarettes together will harm the third person with pollution. Example of negative externality is exhaust fumes from automobiles. Positive externality refers to a good effect on the third party. For example, restoration of historic buildings, research into new technologies. Carbon tax is one example in the context of the need to discourage fossil fuels and encourage renewable sources due to climate change threat.

Tobin Tax?

James Tobin, economist, proposed a worldwide tax on all foreign exchange transactions- when foreign capital enters a country and when it leaves. The aim is to check speculative flows. Long term investment — generally FDI, will not suffer as it does not invest for speculative (short term) reasons like FIIs.

Tobin Justified the tax on two Grounds

First, it would reduce exchange rate volatility and improve macroeconomic performance.

Second, the tax could bring in revenue to support for development efforts or exchange rate stabilization.

The defining characteristic of a Tobin tax is that the tax is levied twice- once when one acquires foreign exchange, and again when one sells the foreign exchange.

The south east Asian currency crisis (1997) is attributed to the 'dynamics of hot money' (portfolio investments or FII flows).

Tobin tax can be imposed only if all the countries accept the proposition. Otherwise, FIIs can go to countries where the tax is not imposed.

MAT

Normally, a company is liable to pay tax on the income computed in accordance with the provisions of the Income Tax Act, but the profit and loss account of the company is prepared as per provisions of the Companies Act. There were large number of companies who show book profits as per their profit and loss account (according to the Companies Act) but do not pay any tax by showing no taxable income as per provisions of the Income Tax act. Although the companies show book profits and may even declare dividends to the shareholders, they do not pay any income tax.

These companies are popularly known as Zero Tax companies. In order to bring such companies under the income tax act net, MAT was introduced in 1996. They are required to pay MAT at 18.5% (2011-12).

Book profit is Profit which is notional made but not yet realized through a transaction, such a stock which has risen in value but is still being held. It is also called unrealized gain or unrealized profit or paper gain or paper profit.

Presumptive Tax

Presumptive Tax the Estimated Income Method of assessment for certain categories of businesses is prevalent in several countries. Presumptive taxation involves the use of indirect means to ascertain tax liability, which differ from the usual rules based on the taxpayer's accounts. The term presumptive is used to indicate that there is a legal presumption that the taxpayer's income is no less than the amount resulting from application of the indirect method.

The reason for the presumptive tax is that in a number of businesses the assesses do not maintain books of accounts or the books of accounts maintained are irregular and incomplete.

It was introduced in India in the early nineties for traders but was withdrawn as the success rate was low.

Laffer Curve

Developed by Arthur Laffer, this curve shows the relationship between tax rates and tax revenue collected by governments.

The Laffer curve has been debated in the country since 1997-1998 Budget reduced rates and slabs in the income tax regime in the country.

Inverted Duty Structure

Higher import duty on the raw materials than on the finished product are called inverted duty structure .It puts the domestic manufacturers at, a disadvantage making them uncompetitive. For instance, compact fluorescent lamps (CFLs), where the import duty on raw materials for manufacturing CFLs is 9.7 per cent more than on finished bulbs. This skewed duty structure makes domestic CFL manufacturers uncompetitive.

Dividend Distribution tax

Companies giving dividend have to pay tax on the amount distributed as dividend.

Withholding tax

It means withholding of tax from certain payments including interest, salaries paid to employees professional fee, payments to contractors etc. It is the same as TDS.

Capital Gains Tax

It is the tax on the gains made from buying and selling assets like land, shares etc.

If the gain is made in the assets held for over three year (one year for shares), it is called long term capital gain and taxed. For shares, there is no long term capital gains tax. For short term capital gains (less than one year), it is 15% for shares.

Wealth Tax

When income accumulates into wealth, it gets taxed after a point. Wealth tax is levied only in respect of specified non-productive assets such as residential houses, urban land, jewellery, bullion, motor cars etc.

Securities Transaction Tax

Introduced in the Union Budget 2004-2005, it is a tax on the value of all the transactions of purchase of securities that take place in a recognised stock exchange of India. It is meant to make up revenue loss from the abolition of long term capital gains tax.

Transfer Pricing

Transfer pricing involves charging for goods supplied to the subsidiary. The international norm in this regard is the 'arms length principle' which means that when two related parties deal in goods and services, pricing must be done objectively and commercially. If the principle is not followed, it means losses for the government. For example, an MNC has a subsidiary in India and elsewhere. The corporate tax rates are high in India. Therefore, the price of goods sold by the MNC to the two subsidiaries in the two countries is shown differently higher in India and less in the other country. In that case, Indian subsidiary shows less profit or more losses and tax liability (corporate tax) is less.

Thus, transfer pricing is generally done in a way as to show high profit in countries where the corporate tax rate is low and low profits/losses where the rate is high. Therefore, transfer pricing norms existing today need to be rationalise the tax revenues that are due to the government are not eroded. Tax evasion and money laundering has to be checked by tightening the transfer pricing regime.

Rupee Comes Like This

The major pan of the government's revenue comes from borrowings. Consequently, the biggest chunk of expenditure is on interest payments.

Out of every rupee that enters the government's coffers, 29 paise is from borrowings and other debt, with corporation tax contributing 22 paise and income tax another 12 paise.

Of the remaining, customs and excise duties account for 10 paise each, with another 10 paise coming from non-tax revenue. Service taxes amount to six paise, while non-debt capital receipts contribute one paise.

Define Cess

The term cess is generally used to mean a tax. It is an additional levy on a tax. It is different from surcharge as the latter is general while the former is specific. Collections from the latter can be used for any purpose while cess collections can be used for designated ends only- education cess etc.

Direct Taxes Code Bill, 2010

The direct taxation of the income of individuals companies and other entities is governed by the Income Tax Act, 1961. The Direct Taxes Code seeks to consolidate the law relating to direct taxes. The Bill will replace the Income Tax Act, 1961, and the Wealth Tax Act, 1957. The Bill widens tax slabs, and lowers corporate tax rates. It removes a number of exemptions and grandfathers some others.

The Bill replaces the Income Tax Act, 1961 and the Wealth Tax Act, 1957.

The Bill widens income tax slabs for individuals' income between Rs 2 lakh to Rs 5 lakh will be taxed at 10%, between Rs 5 lakh and Rs 10 lakh at 20%, and that over Rs 10 lakh at 30%.

Companies will be taxed at 30% of business income. Foreign companies shall pay an additional branch profits tax of 15%, Non profit organisations are taxed at 15%.

The Bill removes several tax deductions currently allowed for companies, but retains most deductions current available to individuals.

The Bill removes the distinction between short term and long term capital gains for all assets except securities listed on stock exchanges.

The wealth tax exemption Limit is increased from Rs 15 lakh to Rs 1 crore.

The Bill introduces General Anti Avoidance Rules to allow tax authorities to classify any arrangement as one entered into for evading taxes.

MAT is at 20% of book profits

Key Issues and Analysis

A Draft Direct Taxes Code, 2009 that

was published for public feedback had the intent of simplifying tax legislation and widening the tax base. The Bill reverses some of the provisions of that Draft Code.

Tax exemptions for individuals have been retained while most exemptions for corporates removed. The tax rates for individuals have been lowered. The taxes paid by corporates will form a greater part of the government's revenue than earlier.

The Bill may increase the burden of compliance in two ways. There are no guidelines to indicate in what situations the General Anti Avoidance Rules will be implemented. Additionally, the Bill requires income from different units of the same business to compute their tax liability separately.

The Bill retains the Dividend Distribution Tax and the Security Transaction Tax. These taxes are levied at a uniform rate irrespective of the amount of income or profit, and go against the principle of progressive taxation of individuals.

The Bill seeks to tax foreign companies if their place of effective management' is in India at any time of the year. It is unclear-as to what would constitute effective management of a foreign company in India.

Bill makes a number of broad changes to the way income is taxed under the Income Tax Act, 1961, These include:

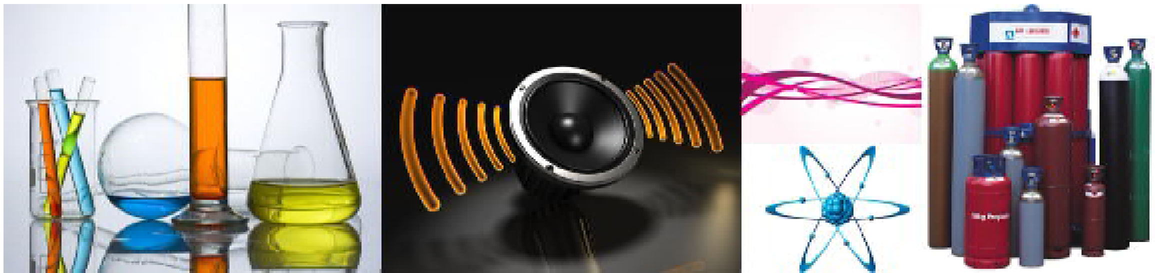
- **Personal income —** Widening of income tax slabs and the removal of some exemptions;
- **Business and corporate income —** Removal or grandfathering (phasing out) of most exemptions.
- **Tax administration —** Wider powers to prevent tax evasion, and an increase in certain penalties.
- Tax Administration and Appellate Authorities
- Under the Act, the apex authority for tax administration is the Central Board of Direct Taxes (CBDT).
- The Bill introduces a general anti-avoidance rule. (GAAR), which aims to plug loopholes in the law which help tax payers reduce their tax liability. The Commissioner of Income Tax can declare any arrangement by a tax payer as 'impermissible', if in his judgement, its main purpose was to have obtained a tax benefit.

India-Mauritius Tax Treaty

India and Mauritius have a double taxation avoidance treaty (DTAA) under which companies of one country investing in the other country are not taxed. It is well-intentioned but is being abused. India has been seeking to tax capital gains on companies making profit in India. Mauritius has agreed to negotiate and revise the existing Double Taxation Avoidance Agreement (DTAA) with India.

More than 40% of total foreign investments to India originate from Mauritius. Authorities here suspect most these investments are nothing but treaty shopping to avoid paying tax. Capital gains is exempted from tax in Mauritius, and under the DTAA, a Mauritian company cannot be taxed in India. The government has en under pressure to act against tax havens, especially after the civil society slammed it for its failure to tackle the issue of black money and tax evasion. India has been insisting on taxing all gains made by a Mauritian company here.

India has DTAAs with 79 countries and is in the process of negotiating more such agreements to broaden the information sharing mechanism. To give more teeth to its tax laws and bring tax evaders to book, the Government has devised a Tax Information Exchange Agreement (TIEA) which is being negotiated with 22 identified tax havens. The finance ministry has been negotiating fresh tax treaties with countries with which has no such arrangement and revising existing treaties where liberal clauses are replaced with more stringent reporting mechanism to avoid any round tripping.



Multiple Choice Questions

1. 'Self-sufficiency' in food, in the true sense of freedom from hunger, has not been achieved in India in spite of a more than three-fold rise in foodgrains production over 1950 to 1990. Which of the following are the reasons for it?
   A. the green revolution has been restricted to small pockets of the country.
   B. the cost of food is too high compared to the earnings of the poor
   C. too much emphasis is laid on wheat and paddy compared to the coarse grains.
   D. the gains of the green revolution have largely accrued to the cash crop rather than food crops.
   (a) A, B, and C (b) A, B, and D
   (c) A, C, and D (d) B, C, and D
2. They are fantastically diverse. They speak hundreds of languages and dialects. They comprise scores of ethnic groups. They include highly industrialized economics and up-and-coming economies. They span half the surface of the earth and tyre home to two-fifths of the world's population'. The group of countries referred to here belongs to:
   (a) SAPTA (b) APEC
   (c) EC (d) CIS
3. A consumer is said to be in equilibrium, if
   (a) he is able to fulfill his need with a given level of income
   (b) he is able to live in full comfort with a given level of income
   (c) he can fulfill his needs without consumption of certain items
   (d) he is able to locate new sources of income
4. A country is said to be in a debt trap if
   (a) it has to abide by the conditionalities imposed by the International Monetary Fund
   (b) it has to borrow to make interest payments on outstanding loans
   (c) it has been refused loans or aid by creditors abroad
   (d) the World Bank charges a very high rate of interest on outstanding as well as new loans
5. A redistribution of income in a country can be best brought about through
   (a) progressive taxation combined with progressive expenditure
   (b) progressive taxation combined with regressive expenditure

(c) regressive taxation combined with regressive expenditure
(d) regressive taxation combined with progressive expenditure

6. A rise in 'SENSEX' means
(a) a rise in prices of shares of all companies registered with Bombay Stock Exchange
(b) a rise in price of shares of all companies registered with National Stock Exchange
(c) an overall rise in prices of shares of group of companies registered with Bombay Stock Exchange
(d) a rise in prices of shares of all companies belonging to a group of companies registered with Bombay Stock Exchange

7. A zero rate of inflation obtains necessarily in a year where the annual rate of inflation
(a) in every week of the *year* is zero
(b) is failing in every week of the year
(c) is both falling and rising in a year
(d) is constant in every week of the year

8. With reference to the Wholesale Price Index (WPI) consider the following statements:
1. the new WPI series with base 1993 to 1994 = 100 became effective from April 1998.
2. in the new WPI series, the weight for primary articles has gone down by 10 per cent points
3. the weight for electricity has increased in the new WPI series

Which of these statements are correct?
(a) 1, 2, and 3 (b) 2 and 3
(c) 1 and 3 (d) I and 2

9. Agricultural income tax is assigned to the State Government by
(a) the Finance Commission
(b) the National Development Council
(c) the Inter-state Council
(d) the Constitution of India

10. Arrange the following states in descending order with respect to urban population. Choose your answer from the following codes.
A. Tamil Nadu B. Uttar Pradesh
C. Maharashtra D. West Bengal
(a) A, B, C, D (b) B, A, C, D
(c) C, B, A, D (d) C, A, B, D

11. Bank Rate implies the rate of interest
(a) paid by the Reserve Bank of India on the deposits of commercial banks.
(b) charged by banks on loans and advances
(c) payable on bonds
(d) at which the Reserve Bank of India discounts the Bills of Exchange

12. Capital Account Convertibility of the Indian Rupee implies
(a) that the Indian Rupee can be exchanged by the authorized dealers for travel
(b) that the Indian Rupee can be exchanged for any major currency for the purpose of trade in goods and services
(c) that the Indian Rupee can be exchanged for any major currency for the purpose of trading financial assets
(d) none of the above

13. Consider the following.
A. Industrial Finance Corporation of India
B. Industrial Credit and Investment Corporation of India
C. Industrial Development Bank of India
D. Unit Trust of India

The correct sequence in which the above were established is
(a) A, B, C, and D
(b) A, C, B, and D
(c) D, C, B and A
(d) A, D, C, and B

14. Consider the following.
A. Market borrowing
B. Treasury bills
C. Special securities issued to RBI

Which of these is/are component(s) of internal debt?
(a) A only (b) A and B
(c) B only (d) A, B, and C

15. Consider the following.
A. Currency with the public
B. Demand deposits with banks
C. Time deposits with banks

Which of these are included in Board Money (M3) in India?
(a) A and B (b) A and C
(c) Band C (d) A, B, and C

16. Consider the following financial institutions of India:
    A. Industrial Finance Corporation of India (IFCI)
    B. Industrial Credit and Investment Corporation of India (ICICI)
    C. Industrial Development Bank of India (IDBI)
    D. National Bank of Agriculture and Rural Development (NABARD)
    The correct chronological sequence of the establishment of these institutions is
    (a) A, B, C, D (b) B, C, D, A
    (c) C, D, A, B (d) D, A, B, C
17. Consider the following organizations:
    A. International Bank for Reconstruction and Development
    B. International Finance Corporation
    C. International Fund for Agricultural Development
    D. International Monetary Fund
    Which of these are agencies of the United Nations?
    (a) A and B (b) Band C
    (c) C and D (d) A, B, C, and D
18. Consider the following statements.
    Most internationals agencies which fund development programmes in India on inter-government bilateral agreements mainly provide:
    A. Technical assistance
    B. Soft loans which are required to be paid back with interest
    C. Grants, not required to be paid back
    D. Food assistance to alleviate poverty
    (a) B and D are correct
    (b) 1, 2, and C are correct
    (c) A, B, and D are correct
    (d) C and D are correct
19. Consider the following statements
    A. Regarding the procurement of foodgrains, Government of India follows a procurement target rather than an open-ended procurement policy.
    B. Government of India announces minimum support prices only for cereals
    C. For distribution under Targeted Public Distribution System (TPDS), wheat and rice are issued by the Government of India at uniform Central issue prices to the States/Union Territories.
    Which of the statements given above is/are correct?
    (a) A and B (b) B only
    (c) A and C (d) C only
20. Consider the following statements.
    A. Reserve Bank of India was nationalized on 26 January 1950.
    B. The borrowing programme of the Government of India is handled by the Department of Expenditure, Ministry of Finance.
    Which of the statements given above is/are correct?
    (a) A only (b) B only
    (c) Both A and B(d) neither A nor B
21. Consider the following statements.
    A. The Oil Pool Account of Government of India was dismantled with effect from 1, April 2002
    B. Subsidies on PDS kerosene and domestic LPG are borne by Consolidated Fund of India
    C. An expert committee headed by Dr R.A. Mashelkar to formulate a national auto fuel policy recommended that Bharat State-II Emission Norms should be applied throughout the country by 1 April 2004.
    Which of the statements given above are correct?
    (a) A and B (b) B and C
    (c) A and C (d) A, B, and C
22. Consider the following statements.
    The objectives of the National Renewal Fund set up in February 1992 were
    A. to give training and counselling for workers affected by retrenchment or VRS.
    B. redeployment of workers
    Which of these statements is/are correct?
    (a) neither A nor B(b) both A and B
    (c) A only (d) B only
23. Consider the following statements.
    A. The loans disbursed to farmers under Kisan Credit Card Scheme are covered

under Rashtiya Krishi Bema Yojna of Life Insurance Corporation of India
B. The Kisan Credit Card holders are provided personal accident insurance of Rs 50, 000 for accidental death and Rs 25,000 for permanent disability
Which of the statements given above is/are correct?
(a) A only (b) B only
(c) both A and B(d) Neither A nor B

24. Consider the following statements.
A. there is persistent investment over time only in select locals
B. some areas are agro-climatically less conducive to development
C. some areas continue to face little or no agrarian transformation and the consequent lack of social and economic opportunities
D. some areas have faced continuous political instability
Which of the above statements are correct?
(a) A, B, and C (b) A, B, and D
(c) A, C, and D (d) B, C, and D

25. Consider the following statements.
A. National Thermal Power Corporation has diversified into hydropower sector
B. Power Grid Corporation of India has diversified in telecom sector
Which of the statements given above is/are correct?
(a) A only (b) B only
(c) both A and B(d) neither A nor B

26. Consider the following statements.
Small-scale industries are in most cases, not as efficient and competitive as the large-scale ones. Yet the government provides preferential treatment and reservations in a range of products to the small firms because small-scale industries
A. provide higher employment on a per unit capital development basis
B. promote a regional dispersion of industries and economic activities
C. have performed better in export on manufactured products than the large scale ones
D. provide jobs to low-skill workers, who otherwise may not find employment avenues elsewhere
Which of the above statements are correct?
(a) A and D (b) A and B
(c) B and C (d) C and D

27. Consider the following statements.
A. The World Intellectual Property Organization (WIPO) is a specialized agency of United Nations System of Organization
B. WIPO has its headquarters at Rome
C. The Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement is binding on all WTO members
D. Least developed country members of WTO are not required to apply the provisions of TRIPS agreement for a period of 20 years from the general date of application of the agreement.
Which of these statements are correct?
(a) A, B, C, and D(b) B, C, and D
(c) A, C, and D (d) A and C

28. Consider the following statements.
A. India ranks first in the world in fruit production.
B. India ranks second in the world in the export of tobacco.
Which of these statements is/are correct?
(a) Only A (b) Only B
(c) both A and B(d) neither A nor B

29. Consider the following statements.
The price of any currency in international market is decided by the
A. World Bank
B. demand for goods/services provided by the country concerned
C. stability of the government of the concerned country
D. economic potential of the country in question of these statements
(a) A, B, C, and D are correct
(b) B and C are correct
(c) C and D are correct
(d) A and D are correct

30. Consider the following statements.
A. The National Housing Bank, the apex institution of housing finance in India,

was set up as a wholly-owned subsidiary of the Reserve Bank of India.

B. The Small Industries Development Bank of India was established as a whollyowned subsidiary of the Industrial Development Bank of India.

Which of the statements given above is/are correct?

(a) A only (b) B only
(c) both A and B
(d) neither A nor B

31. Consider the following statements.

Full convertibility of the rupee may mean

A. its free float with other international currencies
B. its direct exchange with any other international currency at any prescribed place inside and outside the country
C. it acts just like any other international currency

Which of these statements are correct?

(a) A and B
(b) A and C
(c) B and C (d) A, B, and C

32. Consider the following statements.

The Indian Rupee is fully convertible

A. in respect of current account of balance of payment
B. in respect of capital account of balance of payment
C. into gold

Which of these statements is/are correct?

(a) A alone (b) B alone
(c) A and B (d) A, B, and C

33. Consider the following statements about the European Union.

A. The European Union was known earlier as the European Community
B. The Single European Act (1986) and the Maastricht Treaty were milestones in its formation
C. Citizens of European Union countries enjoy dual citizenship
D. Switzerland is a member of the European Union

Which of the above statements are correct?

(a) Band D (b) A and C
(c) C and D (d) A, B, and C

34. Consider the following statements.

A. Damodar Valley Corporation is the first multipurpose river valley project of independent India
B. Damodar Valley Corporation includes thermal and gas power stations

Which of the statements given above is/are correct?

(a) A only (b) B only
(c) both A and B(d) neither A nor B

35. Consider the following statements: India continues to be dependent on imports to meet the requirement of oilseeds in the country because

A. farmers prefer to grow foodgrains with highly remunerative support prices
B. most of the cultivation of oilseed crops continues to be dependent on rainfall
C. oils from the seeds to tree origin and rice bran have remained unexploited
D. it is far cheaper to import oilseeds than to cultivate the oilseed crops

Which of the statements given above are correct?

(a) A and B
(b) A, B, and C
(c) C and D (d) A, B, C, and D

36. Consider the following taxes.

A. Corporation tax B. Customs duty
C. Wealth tax D. Excise duty

Which of these is/are indirect taxes?

(a) A only (b) Band D
(c) A and C (d) B and C

37. Convertibility of the rupee implies

(a) being able to convert rupee notes into gold
(b) allowing the value of the rupee to be fixed by market forces
(c) freely permitting the conversation of rupee of other major currencies and vice versa
(d) developing an international market for currencies in India

38. Corporation tax

(a) is levied and appropriated by the States
(b) is levied by the Union and collected and appropriated by the States

(c) is levied by the Union and shared by the Union and the States
(d) is levied by the Union and belongs to it exclusively

39. Debenture holders of a company are its
(a) shareholders (b) creditors
(c) debtors (d) directors

40. Devaluation of a currency means
(a) reduction in the value of a currency vis-a-vis major internationally traded currencies
(b) permitting the currency to seek its worth in the international market
(c) fixing the value of the currency in conjunction with the movement in the value of a basket of predetermined currencies
(d) fixing the value of a currency in multilateral consultation with the IMF, the World Bank, and major trading partners

41. Economic liberalization in India started with
(a) substantial changes in industrial licensing policy
(b) the convertibility of Indian rupee
(c) doing away with procedural formalities for foreign direct investment
(d) significant reduction in tax rates

42. Economic survey in India is published officially, every year by the
(a) Reserve Bank of India
(b) Planning Commission of India
(c) Ministry of Finance, Government of India
(d) Ministry of Industries, Government of India

43. With reference to the Public Sector Undertakings in India, consider the following statement:
A. Minerals and Metals Trading Corporation of India Limited is the largest non-oil importer of the country
B. Project and Equipment Corporation of India Limited is under the Ministry of Industry
C. One of the objectives of Export Credit Guarantee Corporation of India Limited is to enforce quality control and compulsory pre-shipment inspection of various exportable commodities

Which of these statements is/are correct?
(a) A only (b) A and B
(c) B and C (d) C only

44. Euro dollars are:
(a) a currency issued by European Monetary Union
(b) special currency issued by federal government of USA to be issued only in Europe
(c) US dollars circulating in Europe
(d) European currencies exchanged for the US dollar in US

45. Fiscal deficit in the Union Budget means
(a) the sum of budgetary deficit and net increase in internal and external borrowings
(b) the difference between current expenditure and current revenue
(c) the sum of monetized deficit and budgetary deficit
(d) net increase in Union Government's borrowings from the Reserve Bank of India

46. Five-Year Plan in India is finally approved by
(a) Union Cabinet
(b) President on the advice of Prime Minster
(c) Planning Commission
(d) National Development Council

47. From the balance sheet of a company, it is possible to
(a) judge the extent of profitability of the company
(b) assess the profitability and size of the company
(c) determine the size and composition of the assets and liabilities of the company
(d) determine the market share, debts, and assets of the company

48. Gilt-edged market means
(a) bullion market
(b) market of government securities
(c) market of guns
(d) market of pure metals

49. Global capital-flows to developing countries increased significantly during the nineties. In view of the East Asian financial crisis and Latin American experience, which type of inflow is good for the host country?
   (a) Commercial loans
   (b) Foreign Direct Investment
   (c) Foreign Portfolio Investment
   (d) External Commercial Borrowings
50. In an open economy, the national income (Y) of the economy is:
   (C, I, G, X, M stand for Consumption, Investment, Government Expenditure, total export, and total imports, respectively).
   (a) $Y = C + I + G + X$
   (b) $Y = C + I + G - X + M$
   (c) $Y = C + I + G(X - M)$ (d)
   $Y = C + I - G + X - M$
51. In India the public sector is the most dominant in
   (a) steel production
   (b) organized term-ending financial institution
   (c) transport
   (d) commercial banking
52. In India, inflation is measured by the
   (a) Wholesale Price Index number
   (b) Consumers Price Index for urban non-manual workers
   (c) Consumers Price Index for agricultural workers
   (d) National Income Deflation
53. In India, rural incomes are generally lower than the urban incomes, which of the following reasons account for this?
   A. A large number of farmers are illiterate and know little about scientific agriculture
   B. Prices of primary products are lower than those of manufactured products
   C. Investment in agriculture has been low when compared to investment in industry

Codes:
   (a) A, B, and C
   (b) A and B
   (c) A and C
   (d) B and C

54. In India, the first bank of limited liability managed by Indians and founded in 1881 was
   (a) Hindustan Commercial Bank
   (b) Oudh Commercial Bank
   (c) Punjab National Bank
   (d) Punjab and Sind Bank
55. In the last one decade, which one among the following sectors has attracted the highest foreign direct investment inflows into India?
   (a) chemicals other than fertilizers
   (b) services sector
   (c) food processing
   (d) telecommunication
56. In the year 2001, the Prime Minister announced a 5-year excise duty holiday for industries in
   (a) cyclone-prone coastal Andhra Pradesh
   (b) border states of northeast
   (c) earthquake-ravaged Kutch district
   (d) recently formed states of Chhattisgarh and Jharkhand
57. In which one of the following crops international trade is low in the context of total produce?
   (a) rice (b) coffee
   (c) rubber
   (d) wheat
58. Match List I with List II and select the correct answer.

	List I (Committees)		**List II (Chaired by)**
A.	Disinvestment public sector enterprises	1.	Rajah of shares in Chelliah
B.	Industrial sickenss	2.	Onkar Goswami
C.	Tax reforms	3.	R N Malhotra
D.	Reforms in insurance sector	4.	C Rangarajan

Codes:

	A	B	C	D
(a)	1	4	2	3
(b)	4	2	1	3
(c)	4	1	2	3
(d)	1	3	4	2

59. Match **List I** with **List II** and select the correct answer:

List I (Commodities exported	List II (Country of destination) from India)
A. Iron ore	1. Russia
B. Leather	2. USA goods
C. Tea	3. Japan
D. Cotton	4. UK fabrics
5. Canada	

Codes:

	A	B	C	D
(a)	5	1	2	3
(b)	3	1	4	2
(c)	1	5	4	3
(d)	3	4	1	2

60. Match **List I** with **List II** and select the correct answer using the codes given below.

List I	List II
A. Fiscal deficit over	1. excess of total expenditure total receipts
B. Budget deficit	2. excess of revenue expenditure over revenue receipts
C. Revenue deficit	3. excess of total expenditure over total receipts less borrowings
D. Primary deficit	4. excess of total expenditure over total Receipts less borrowings and interest payments

Codes:

	A	B	C	D
(a)	3	1	2	4
(b)	4	3	2	1
(c)	1	3	2	4
(d)	3	1	4	2

61. Match **List I** with **List II** and select the correct answer using the codes given below.

List I	List II
A. Development Programme	1. UN India Human Development Report
B. National Council of Applied Economic Research	2. India Development Report
C. Indira Gandhi Development Research	3. World Institute of Development Report
D. World Bank	4. Human Development Report

Codes:

	A	B	C	D
(a)	4	1	2	3
(b)	4	2	1	3
(c)	2	3	4	1
(d)	2	1	4	3

62. Match **List I** with **List II** and select the correct answer using the codes given below.

List I	List II
A. WTO	1. provides loans to address short-term balance of payment problems
B. IDA	2. multilateral trade negotiation body
C. IMF	3. sanction of soft loans
D. IBRD lending and	4. facilitating and borrowing for reconstruction development

Codes:

	A	B	C	D
(a)	2	3	4	1
(b)	2	3	1	4
(c)	3	2	4	1
(d)	3	2	1	4

63. Match List-I with List-II and select the correct answer using the codes given below.

List-I	List-II
A. Boom at income,	1. business activity high level with increasing output and employment at macro
B. Recession and	2. gradual fall of income output employment with business activity

			in low gear
C.	Depression level	3.	unprecedented of under employment and unemployment, drastic fall in income, output and employment
D.	Recovery	4.	steady rise in the general level of prices, income, output, and employment

Codes:

	A	B	C	D
(a)	1	2	3	4
(b)	1	2	4	3
(c)	2	1	4	3
(d)	2	1	3	4

64. Match the following pairs and choose the answer from the codes below.

Plans		**Year**
(1) First	A.	1956 to 1961
(2) Second	B.	1980 to 1985
(3) Third	C.	1961 to 1966
(4) Fourth	D.	1985 to 1990
(5) Fifth	E.	1951 to 1956
(6) Sixth	F.	1974 to 1979
(7) Seventh	G.	1969 to 1974
(8) Eighth	H.	1992 to 1997

Codes:
(a) 1-E, 2-A, 3-C, 4-G, 5-F, 6-B, 7-D, 8-H
(b) 1-A, 2-B, 3-C, 4-D, 5-E, 6-P, 7-G, 8-H
(c) 1-A, 2-C, 3-E, 4-G, 5-H, 6-F, 7-D, 8-B
(d) 1-H, 2-G, 3-F, 4-E, 5-D, 6-C, 7-B, 8-A

65. Most Favoured Nations (MFN) clause under GATT implies
(a) most favour to some countries
(b) most favour to all countries
(c) no favour to any country
(d) no favour to some countries

66. National Agricultural Insurance Scheme replacing Comprehensive Crop Insurance Scheme was introduced in the year
(a) 1997
(b) 1998
(c) 1999 (d) 2000

67. National Income is the
(a) Net National Product at market price
(b) Net National Product at factor cost
(c) Net Domestic Product at market price
(d) Net Domestic Product at factor cost

68. Nobel Prize in Economics for the year 1997 was awarded for contribution in the area of
(a) International Economics
(b) Financial Economics
(c) Public Economics
(d) Development Economics

69. One of the reasons for India's occupational structure remaining more or less the same over the years has been that
(a) investment pattern has been directed towards capital intensive industries
(b) productivity in agriculture has been high enough to induce people to stay with agriculture
(c) Ceiling on land holdings have enabled more people to own land and hence their preference to stay with agriculture
(d) People are largely unaware of the significance of transition from agriculture to industry for economic development

70. Persons below the poverty line in India are classified as such based on whether
(a) they are entitled to a minimum prescribed food basket
(b) they get work for a prescribed minimum number of days in a year
(c) they belong to agricultural labourer household and the scheduled caste/ tribe social group
(d) their daily wages fall below the prescribed minimum wages

71. Arrange put the main sources of revenue of the Central Government in ascending order of importance.
A. Income tax
B. Corporate tax
C. Customs D. Excise duties

Choose your answer from the following codes.
(a) A, B, C, D (b) C, B, D, A
(c) D, C, A, B (d) D, C, B, A

72. Resurgent India Bonds were issued in US dollar, Pound Sterling, and
(a) Japanese Yen (b) Deutsche Mark
(c) Euro (d) French Franc

73. The schemes of Urban Micro-Enterprises, Urban Wage Employment and Housing, and Shelter Upgradation are part of
(a) Integrated Rural Development Programme
(b) Nehru Rozgar Yojana
(c) Jawahar Rozgar Yojana
(d) Prime Minister's Rozgar Yojana
74. Since 1980, the share of the tertiary sector in the total GDP of India has
(a) shown an increasing trend
(b) shown a decreasing trend
(c) remained constant
(d) been fluctuating
75. Some time back, the Government of India, decided to delicense 'white goods' industry, 'white goods' include
(a) stainless steel and aluminium utensils
(b) milk and milk products
(c) items purchased for conspicuous consumption
(d) soaps, detergents and other mass consumption goods
76. The accounting year of the Reserve Bank of India is
(a) April-March (b) July-June
(c) October-September
(d) January-December
77. The average rate of domestic savings (gross) for the Indian economy is currently estimated to be in the range of
(a) 15 to 20 per cent (b) 20 to 25 per cent
(c) 25 to 30 per cent *(d)* 30 to 35 per cent
78. The average rate of domestic savings (gross) for the Indian economy is currently estimated to be in the range of
(a) 15 to 20 per cent (b) 20 to 25 per cent
(c) 15 to 30 per cent (d) 30 to 35 per cent
79. The banks are required to maintain a certain ratio between their cash in hand and total assets. This is called
(a) SBR (Statutory Bank Ratio)
(b) SLR (Statutory Liquid Ratio)
(c) CBR (Central Bank Reserve)
(d) CLR (Central Liquid Reserve)
80. The basic difference between imperative and indicative planning is that
(a) in the case of the imperative planning the market mechanism is entirely replaced by a command hierarchy, while in the case of indicative planning, it is looked upon as a way to improve the functioning of market system.
(b) in the case of indicative planning there is no need to nationalize any industry
(c) in the case of imperative planning all economic activities belong to public sector, while in the other type *they* belong to the private sector
(d) it is easier to achieve targets in imperative type of planning
81. The concept of joint sector implies cooperation between
(a) public sector and private sector industries
(b) State Government and Central Government enterprises
(c) domestic and foreign industries
(d) none of these
82. The currency of the European Monetary Union is
(a) Dollar (b) Euro
(c) Guilder (d) Mark
83. The current price index (base 1960) is nearly 330.This means that
(a) all items cost 3-3 times more than what they did in 1960
(b) the prices of certain selected items have gone up to 3-3 times
(c) weighted mean of prices of certain items has increased 3-3 times
(d) gold price has gone up 3-3 times
84. The difference between a bank and a non-banking financial institution (NBF) is that
(a) a bank interacts directly with customers while an NBFI interacts with banks and governments
(b) a bank indulges in a number of activities relating to finance with a range of customers, while an NBFI is mainly concerned with the term loan needs of large enterprises
(c) a bank deals with both internal and international customers while an NBFI is mainly concerned with the finances of foreign companies
(d) a bank's main interest is to help in

business transactions and savings/ investment activities while an NBFI's main interest is in the stabilization of the currency

85. The earlier name of WTO was
    (a) UNCTAD (b) GATT
    (c) UNIDO (d) OECD
86. The earnings of India from diamond export is quite high. Which one of the following factors has contributed to it?
    (a) pre-independence stock-piling of diamonds in the country which are now exported
    (b) large production of industrial diamonds in the country
    (c) expertise available for cutting and polishing of imported diamonds which are then exported
    (d) as in the past, India produces huge quantity of gem diamonds which are exported
87. The Employment Assurance Scheme envisages financial assistance to rural areas for guaranteeing employment to at least
    (a) 50 per cent of the men and women seeking jobs in rural areas
    (b) 50 per cent of the men seeking jobs in the rural areas
    (c) one man and one women in a rural family living below the poverty line
    (d) one person in a rural landless household living below the poverty line
88. The Employment Guarantee Scheme, a rural work programme, was first started in
    (a) West Bengal (b) Punjab
    (c) Kerala (d) Maharashtra
89. The farmers are provided credit from a number of sources for their short- and long-term needs. The main sources of credit to the farmers include
    (a) the Primary Agricultural Co-operative Societies, commercials banks, RRBs and private money lenders
    (b) the NABARD, RBI, commercial banks and private money lenders
    (c) the District Central Cooperative Banks (DCCBs), the lead banks, IRDP and JRY
    (d) the Large Scale Multi-purpose Adivasis Programme, DCCB, IFFCO and commercial banks
90. The following table shows the percentage distribution of revenue expenditure of Government of India in 1989-1990 and 1994-1995:

Expenditure Head (Per cent to total)

Years	Defence	Interest Pay ments	Sub-sidies to /UTs	Grants States	Others
1989-1990	15.1	27.7	16.3	13.6	27.4
1994-1995	13.6	38.7	8.0 16.7	23.0	

Based on this table, it can be said that the Indian economy is in poor shape because the Central Government continues to be under pressure to:
    (a) reduce expenditure on defence
    (b) spend more and more on interest payments
    (c) reduce expenditure on subsidies3
    (d) spend more and more as grants-in-aid to State Government/Union Territories
91. The growth rate of per capita income at current prices is higher than that of per capita income at constant prices, because the latter takes into account the rate of
    (a) growth of population
    (b) increase in price level
    (c) growth of money supply
    (d) increase in the wage rate
92. The growth rate of which one of the following sectors has very low employment elasticity?
    (a) manufacturing (b) construction
    (c) financial services (d) mixed farming
93. The latest regional economic bloc to be formed is
    (a) ASEAN (b) COMECON
    (c) APEC (d) NAFTA
94. The main function of the IMF is to
    (a) manage international deposits from banks
    (b) help to solve balance of payments problems of member countries
    (c) act as a private sector lending arm of the World Bank
    (d) finance investment loans to development countries

95. The main reason for low growth rate in India, in spite of high rate of savings and capital formation is
(a) high birth rate
(b) low level of foreign aid
(c) low capital/output ratio
(d) high capital/output ratio

96. The Minimum Alternative Tax (MAT) was introduced in the Budget of the Government of India for the year (1997)
(a) 1991 to 92 (b) 1992 to 93
(c) 1995 to 96 (d) 1996 to 97

97. The most appropriate measure of a country's economic growth is its
(a) Gross Domestic Product
(b) Net Domestic Product
(c) Net National Product
(d) Per Capita Real Income

98. The Narasimham Committee for financial Sector Reforms has suggested reduction in
(a) SLR and CRR
(b) SLT, CRR, and Priority Sector Financing
(c) SLT and financing to capital goods sector
(d) CRR, Priority Sector financing, and Financing to capital goods sector

99. The new series of Wholesale Price Index (WPI) released by the Government of India is with reference to the base prices of
(a) 1981 to 1982 (b) 1990 to 1991
(c) 1993 to 1994 (d) 1994 to 1995

100. The planning process in the industrial sector in India has assumed a relatively less important position in the nineties as compared to that in the earlier period. Which one of the following is not true in this regard?
(a) with the advent of liberalization, industrial investments/development have largely been placed within the domain of private and multinational sectors
(b) with markets assuming a central place, the role of central planning in many sectors has been rendered redundant
(c) the focus of planning has shifted to sectors like human resource development, infrastructure, population control and welfare
(d) the nation's priorities have shifted away from industrial development to rural development

101. The prices at which the government purchases foodgrains for maintaining the public distribution system and for building up buffer-stock is known as *(2001)*
(a) minimum support prices
(b) procurement prices
(c) issue prices (d) ceiling prices

102. The sum of which of the following constitutes Broad Money in India?
A. currency with the public
B. demand deposits with banks
C. time deposits with banks
D. other deposits with RBI

Codes:
(a) A and B (b) A, B, and C
(c) A, B, C, and D (d) A, B, and D

103. The supply-side economics lays greater emphasis on the point of view of
(a) producer (b) global economy
(c) consumer (d) middle-man

104. The Swarna Jayanti Shahari Rozgar Yojana which came into operation from 1 December 1997 aims to provide gainful employment to the urban unemployed or underemployed poor but does not include:
(a) Nehru Rozgar Yojana
(b) Urban Rozgar Yojana
(c) Prime Minister's Integrated Urban Poverty Eradication Programme
(d) Prime Minister's Rozgar Yojana

105. The term National Income represents
(a) gross national product at market prices minus depreciations
(b) gross national product at market prices minus depreciation plus net factor income from abroad
(c) gross national product at market prices minus depreciation and indirect taxes plus subsidies
(d) gross national product at market prices minus net factor income from abroad

106. There was no independent development of industries in India during British rule because of the
(a) absence of heavy industries

(b) scarcity of foreign capital
(c) scarcity of natural resources
(d) preference of the rich to invest in land

107. To know whether the rich are getting richer and the poor getting poorer, it is necessary to compare
(a) the wholesale price index over different periods of time for different regions
(b) the distribution of income of an identical set of income recipients in different period of time
(c) the distribution of income of different sets of income recipients at a point of time
(d) the availability of foodgrains among two sets of people, one rich and the other poor, over different period of time

108. To prevent recurrence of scams in Indian Capital Market, the Government of India has assigned regulatory powers to
(a) SEBI (b) RBI
(c) SBI (d) ICICI

109. Tourism industry in India is quite small compared to many other countries in terms of India's potential and size. Which one of the following statements is correct in this regard?
(a) Distances in India are too far apart and its luxury hotels are too expensive for Western tourists?
(b) For most of the months India is too hot for Western tourists to feel comfortable
(c) Most of the picturesque resorts in India such as in the northeast and Kashmir are, for all practical purposes, out of bounds
(d) In India, the infrastructure required for attracting tourists is inadequate

110. Variable reserve rates and Open Market Operations are instruments of
(a) Fiscal Policy (b) Monetary Policy
(c) Budgetary Policy (d) Trade Policy

111. Which of the following are the main causes of slow rate of growth of per capita income in India?
A. High capital-output ratio
B. High rate of growth of population
C. High rate of capital formation
D. High level of fiscal, deficits

Codes:
(a) A, B, C, and D (b) B, C, and D
(c) A and D (d) A and B

112. Which of the following are the objectives of the Commission for Agricultural Costs and Prices (CACP) ?
A. To stabilize agricultural prices
B. To ensure meaningful real income levels to the farmers
C. To protect the interest of the consumers by providing essential agricultural commodities at reasonable rates through public distribution system.
D. To ensure maximum price for the farmer
(a) A, B, and C (b) A, B, and D
(c) A, C, and D (d) B, C, and D

113. Which of the following committees examined and suggested financial sector reforms?
(a) Abid Hussain Committee
(b) Bhagwati Committee
(c) Chelliah Committee
(d) Narasimham Committee

114. Which of the following is not a recommendation of the task force on direct taxes under the chairmanship of Dr Vijay Lkelkar in the year 2002?
(a) abolition of Wealth Tax
(b) increase in the exemption limit of personal income to Rs 1.20 lakh for widows
(c) elimination of standard deduction
(d) exemption from tax on dividends and capital gains from the listed equity

115. Which of the following is true regarding the Jawaharlal Rozgar Yojana (JRY)?
(a) it was launched during the Prime Ministership of Indira Gandhi
(b) it aims at creating one million jobs annually
(c) the target group of JRY are the urban poor living below the poverty line
(d) under the scheme 30 per cent of the employment general is reserved for women

116. Which of the following is wrongly matched?
(a) National Institute of Animal Genetics-Karnal

(b) Indian Institute of Sugarcane Research-Lucknow
(c) Central Institute of Coastal Engineering for Fisheries-Bangalore
(d) Central Duck Breeding Farm - Chikmagalur

117. Which of the following pairs are correctly matched:
A. Dow Jones : New York
B. Hang-Seng : Seoul
C. FTSE-100 : London
Codes:
(a) A, B, and C (b) B and C
(c) A and B (d) A and C

118. Which of the following pairs is incorrect?

	Plan	**Emphasis**
(a)	I	agriculture and rural development
(b)	II	expansion of basic and heavy industries
(c)	III	self-sufficiency in food and expansion of basic industries like steel
(d)	IV	political growth of the country

119. Which of the following statements about indirect taxes in India is/are true?
A. yield from indirect taxes is much more than that from direct taxes
B. indirect taxes have grown faster than direct taxes, since independence
C. indirect taxes are ultimately paid for by persons who do not actually pay the taxes to the government
D. increase in indirect taxes is a welcome feature in a developing country
Choose your answer from the following codes.
(a) A, B, and D
(b) A and B
(c) B only (d) A, B, and C

120. Which of the following statements about the Dunkel draft is/are correct?
A. it is mandatory for the Government of India to accept all its proposals in all the sectors
B. in the field of agriculture, the main proposal is to cut agricultural subsidies
C. in the field of textiles, it reiterates the operations of the multifibre agreement
D. the proposals have already been accepted by the Parliament
Choose your answer from the following codes.
(a) A only
(b) A and B only
(c) A, B, and D only
(d) C and D only

121. Which of the following statements are correct according to the figures of the 1991 census?
A. the major proportion of rural population belongs to the category of marginal workers
B. marginal workers form the minimum proportion in the population of Chandigarh
C. 6.23 per cent of the country's population are non-workers
D. maximum percentage of nonworkers are in Dadra and Nagar Haveli
Choose your answer from the following codes.
(a) A and B (b) B and C
(c) A, B, and C (d) A, B, C, and D

122. Which of the following statements correctly expresses the difference between preference shares and equity shares?
(a) equity shareholders have no voting right but preference shareholders have voting rights
(b) preference shareholders have no voting rights but equity shareholders have voting rights
(c) preference shareholders have no right to profit whereas equity shareholders have a right to profit
(d) preference shareholders get exemption from taxes while equity shareholders do not get any exemption

123. Which of the following statements is correct?
(a) when national income increases, national consumption increases in lesser proportion
(b) when national income increases, national consumption increases in greater proportion

(c) when national income increases, national consumption increases in the same proportion
(d) none of the above

124. Which of the following statements regarding wheat production is/are incorrect?
A. maximum area under wheat is in Uttar Pradesh
B. maximum production is in Uttar Pradesh
C. highest productivity is from Haryana
Choose your answer from the following

Codes:
(a) A and C (b) A only
(c) A and B (d) B only

125. Which of the following were the aims behind the setting up of the World Trade Organization (WTO)?
A. promotion of free trade and resource flows across countries
B. protection of intellectual property rights
C. managing balanced trade between different countries
D. promotion of trade between the former East Bloc countries and the Western world

Codes:
(a) A, B, C, and D (b) A and B
(c) B and C (d) A and D

126. Which of the following were the priority objectives of the Eighth Plan?
A. universalization of elementary education
B. growth and diversification of agriculture
C. containment of population growth
D. gradual privatization of most public sector undertakings
Choose your answer from the following codes.
(a) A, B, D (b) B, C, D
(c) A, C, D (d) A, B, C

127. Which of the following comes under non-plan expenditure?
A. subsidies B. interest payments
C. defence expenditure
D. maintenance expenditure for the infrastructure created in the previous plans

Codes:
(a) A and B (b) A and C
(c) B and D (d) A, B, C, and D

128. Which one among the following countries has the lowest GDP per capita?
(a) China (b) India
(c) Indonesia (d) Sri Lanka

129. Which one of the following committees recommended the abolition of reservation of items for the small scale sector in industry?
(a) Abid Hussain Committee
(b) Narasimhan Committee
(c) Nayak Committee
(d) Rakesh Mohan Committee

130. Which one of the following Five Year Plans recognized human development as the core of all development efforts?
(a) The third Five-Year Plan
(b) The fifth Five-Year Plan
(c) The sixth Five-Year Plan
(d) The eighth Five-Year Plan

131. Which one of the following governmental steps has proved relatively effective in controlling the double digit rate of inflation in the Indian economy during recent years?
(a) enhanced rate of production of all consumer goods
(b) streamlined public distribution system
(c) pursuing an export-oriented strategy
(d) containing budgetary deficit and unproductive expenditure

132. Which one of the following is correct regarding stabilization and structural adjustment as two components of the new economic policy adaptation in India?
(a) Stabilization is a gradual, multi-step process while structural adjustment is a quick adaptation process
(b) Structural adjustment is a gradual multi-step process while stabilization is a quick adaptation process
(c) Stabilization and structural adjustment are very similar and complimentary policies. It is difficult to separate one from the other
(d) Stabilization mainly deals with a set of policies which are to be implemented by the Central Government while

structural adjustment is to be set in motion by the State Governments.

133. Which one of the following is not a instrument of selective credit control in India?
(a) regulation of consumer credit
(b) rationing of credit
(c) margin requirements
(d) variable cost reserve ratios

134. Which one of the following is the largest mutual fund organization in India?
(a) SBI Mutual Fund
(b) GIC Mutual Fund
(c) Ind Bank Mutual Fund
(d) Unit Trust of India

135. Which one of the following is the objective of National Renewal Fund?
(a) to safeguard the interest of workers who may be affected by technological upgradation of industry or closure of sick units
(b) to develop the core sector of the economy
(c) for the development of infrastructure such as energy, transport, communications, and irrigation
(d) for human resource development such as full literacy, employment, population control, household; and drinking water

136. Which one of the following modes of privatization is the most comprehensive and complete?
(a) introduction of private capital in public sector
(b) contracting out management of public enterprises to the private sector
(c) transferring ownership and management to the workers
(d) transferring ownership and management to the private sector

137. Which one of the following pairs is correctly matched?
(a) Rationing-Fiscal control
(b) Cash Reserve Ratio-Selective Credit Control
(c) Licensing-Comprehensive Control
(d) Import Quota-Physical Control

138. Which one of the following regions of the world supplies the maximum of our imported commodities (in term of rupee value)?
(a) Africa (b) America
(c) Asia and Oceania
(d) Europe

139. Which one of the following sets of economics strongly favoured a market economy?
(a) Adam Smith, Keynes, Hicks
(b) Adam Smith, Marx, Strumlin
(c) Adam Smith, Hayek, Friedman
(d) Adam Smith, Ricardo, J. K.Galbraith

140. Which one of the following statements is correct with reference to FEMA in India?
(a) The Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA)in the year 2001.
(b) FERA was given a sunset clause of one year till 31 May 2002 to enable Enforcement Directorate to complete the investigation of pending issues
(c) Under FEMA, violation of foreign exchange rule has ceased to be a criminal offence
(d) As per the new dispensation, Enforcement Directorate can arrest and prosecute the people for the violation of foreign exchange rules.

141. Which one of the following statements is not correct?
(a) Under the Targeted Public Distribution System, the families below Poverty Line are provided 50 kg of foodgrains per month per family at subsidized price
(b) Under Annapurna Scheme, indigent senior citizens of 65 years of age or above eligible for National Old Age Pension but not getting pension can get 10 kg of foodgrains per person per month free of cost
(c) Ministry of Social Justice and Empowerment has a scheme in which indigent people living in welfare institutions like orphanages are given 15 kg of foodgrains per person per month of BPL rates
(d) Ministry of Human Resource Development gives financial support to

mid-day meal scheme for the benefit of Class I to V students in government or government- aided school

142. Which one of the following statements is not correct?
   (a) India is the second largest producer of nitrogenous fertilizers in the world
   (b) India is the ninth largest steel producing country in the world
   (c) India is the second largest producer of silk in the world
   (d) India ranks third in the world in coal production

143. Dinar/New Dinar is the currency of:
   (a) Sudan (b) Yugoslavia
   (c) UAE (d) Tunisia

144. Which one of the following statements regarding the levying, collecting, and distribution of Income Tax is correct?
   (a) The Union levies, collects, and distributes the proceeds of income tax between itself and the states.
   (b) The Union levies, collects, and keeps all the proceeds of income tax itself
   (c) The Union levies and collects the tax but all the proceeds are distributed among the states
   (d) Only the surcharge levied on income tax is shared between the Union and the states

145. Which one of the following types of borrowings from the IMF has the softest servicing conditions?
   (a) Second tranche loan
   (b) SAF (c) ESAF
   (d) Oil facility

146. With reference to the government's welfare schemes, consider the following statements.
   A. Under the Antyodaya Anna Yojana, the foodgrains are available to the poorest of the poor families at Rs 2 solidus kg for wheat and Rs 3 solidus kg of rice.
   B. Under the National Old Age Pension Scheme, the old and destitute are provided Rs 75 Solidus month as Central Pension, in addition to the amount provided by most State Governments.
   C. Government of India has allocated 25 kg foodgrains per below poverty line family per month, at less than half the economic cost

   Which of these statements are correct?
   (a) A and B (b) A and C
   (c) B and C (d) A, B, and C

147. With reference to the Indian economy consider the following activities.
   A. Agriculture, Forestry, and Fishing
   B. Manufacturing
   C. Trade, Hotels, Transport, and Communicaition
   D. Financing, Insurance, Real Estate, and Business Services.

   The decreasing order of the contribution of these sectors to the Gross Domestic Product (GDP) at factor cost at constant price (2000 to 2001) is
   (a) C, A, B, D (b) A, C, D, B
   (c) C, D, A, B
   (d) A, C, B, D

148. With reference to the Indian Public / Finance, consider the following statements.
   A. external liabilities reported in the Union Budget are based on historical exchange rates
   B. the continued high borrowing has kept the real interest rates high in the economy
   C. the upward trend in the ratio of Fiscal Deficit to GDP in recent years has an adverse effect on private investments
   D. interest payments is the single largest component of the non-plan revenue expenditure of the Union Government

   Which of these statements are correct?
   (a) A, B, and C (b) A and D
   (c) B, C, and D (d) A, B, C, and D

Directions (149-174): Assertion A and the other labelled as *Reason R:* You are to examine these two statements carefully and decide if the *Assertion (A)* and *Reason (R)* are individually true and if so, whether the Reason is a correct explanation of the Assertion. Select your answers to these items using the codes given below:

Codes:
   (a) Both A and R are true and R is the correct explanation of A.
   (b) Both A and R are true but R is not a correct explanation of A.

(c) A is true but R is false
(d) A is false but R is true.

149. **Assertion (A):** The United States of America has threatened to ask the World Trade Organization (WTO) to apply sanctions against the developing countries for the non-observance of ILO conventions.
Reason (R): The United States of America itself has adopted and implemented these ILO conventions.

150. **Assertion (A):** India does not export natural rubber.
Reason (R): About 97 per cent of India's demand for natural rubber is met from domestic production.

151. **Assertion (A):** For the first time, India had no trade deficit in the year 2002 to 2003.
Reason (R): For the first time, India's exports crossed worth $50 billion in the year 2002 to 2003

152. **Assertion (A):** Estimation of national income constitutes sale of shares.
Reason (R): Sale of shares is a type of financial transaction.

153. **Assertion (A):** India's share in world trade has declined over the period 1950 to 1951 to 1990 to 1991.
Reason (R): Composition of India's exports/imports has not changed over the period 1950 to 1951 to 1990 to 1991.

154. **Assertion (A):** Disguised unemployment is a common feature of Indian agriculture.
Reason (R): India has been relatively slow in adopting farm mechanization.

155. **Assertion (A):** The EXIM policy is liberal, market-oriented, and favours global trade.
Reason (R): GATT has played a significant role in the liberalization of the economy.

156. **Assertion (A):** Land reforms in India have been successfully implemented.
Reason (R): Government has been providing fertilizer at subsidized rates.

157. **Assertion (A):** Disguised unemployment is generally observed in Indian agricultural sector.
Reason (R): More and more people in I rural areas are becoming literate.

158. **Assertion (A):** Industrial Revolution revolutionized the whole industrial system in England in the eighteenth century.
Reason (R): Industrial Revolution brought the class conflict to an end.

159. **Assertion (A):** Death rate was quite high prior to 1921.
Reason (R): There were frequent famines and epidemics prior to 1921. The available medical facilities and health services were very poor.

160. **Assertion (A):** Indian economy is referred to as a 'mixed economy'
Reason (R): Indian government recognizes the relative importance of both public as well as private sectors in the process of economic development.

161. **Assertion (A):** The population of India has increased rapidly since 1921.
Reason (R): In India the birth rate has declined more rapidly than the death rate since 1921.

162. **Assertion (A):** In Australia cattle rearing is done more for meat than for milk.
Reason (R): Australians are traditionally non-vegetarians.

163. **Assertion (A):** The rate of growth of India's exports has shown an appreciable increase after 1991.
Reason (R): The government of India has resorted to devaluation.

164. **Assertion (A):** There was an increase in industrial production during 1999 to 2000.
Reason (R): The period witnessed a stable exchange rate and improved business sentiments.

165. **Assertion (A):** India's software exports increased at an average growth rate of 50 per cent since 1995 to 1996.
Reason (R): Indian software companies were cost effective and maintained international quality.

166. Deficit financing implies
(a) printing new currency notes
(b) replacing new currency with worn out currency
(c) public expenditure in excess of public revenue
(d) public revenue in excess of public expenditure

167. Deficit financing means that the Government borrows money from the
(a) RBI (b) local bodies
(c) big businessman (d) IMF
168. Devaluation of currency leads to
(a) fall in domestic prices
(b) increase in domestic prices
(c) no impact on domestic prices
(d) erratic fluctuations in domestic prices
169. Economic inequality leads to
(a) class conflicts (b) exploitation
(c) moral degradation (d) all the above
170. The basic objective of planning in India is
(a) increasing employment opportunities
(b) expansion of key industries
(c) increase in agricultural output
(d) all of the above
171. The best solution for overcoming the evil effects of small and uneconomic holdings is
(a) co-operative farming
(b) using capital intensive technology
(c) rapid industrialization
(d) urbanisation of rural population
172. The main feature of tenancy reform may be said to be
(a) reduction of rent
(b) security of tenure
(c) compensation for permanent improvements
(d) all of the above
173. The main features of cooperative joint farming may be said to be
(a) pooling of land by members, but retaining individual ownership
(b) operating the pooled land as a single unit for cultivation
(c) payment to members for the work done on the farm
(d) all of the above
174. The main justification for levying income tax is
(a) to check profiteering
(b) to collect revenue for industrial development
(c) to unearth black money
(d) to reduce economic inequalities
175. Which of the following is not a feature of occupancy tenants ?
(a) occupancy right is transferable
(b) the tenants cannot be evicted at the will of the landlord
(c) the rent that the tenants have to pay is fixed
(d) occupancy rights are inheritable
176. Which of the following measures may be recommended for strengthening the co-operative movement?
(a) multipurpose societies should be formed
(b) loans should be given for productive purposes
(c) local savings should be tapped
(d) all the above
177. A favourable balance of trade means
(a) an excess of merchandise exports and other current credit over merchandise imports and other current debits
(b) an excess of merchandise exports over merchandise imports
(c) an excess of the value of total imports over the value of total exports
(d) all the above
178. According to the new dispensation for insurance businesses in India
(a) the insurance sector has been opened up to Indian private inverstors only
(b) all banks may enter the insurance business
(c) it is mandatory for insurance companies to invest inthe infrastructure and social sectors
(d) NBPCs are not allowed to enter the insurance sector
179. Among the socio-economic factors responsible for the high birth rate in India we may include
(a) large-scale poverty
(b) high mortality rate of children of poor parents
(c) prevalence of child marriage
(d) adverse sex ratio
Choose your answer from the following codes.
(a) A and B
(b) A, B and D
(c) B, C and D (d) A, B and C
180. Arrange in descending order of densities of population (1991 Census figures)

I. Delhi II. Chandigarh
III. Kerala IV. West Bengal
(a) I, II, IV and III (b) I, II, III and IV
(c) III, IV, I and II (d) I, III, IV and II

181. By 'package programme' we mean
(a) packing of all agricultural produce in big containers for marketing wholesale.
(b) packing of all agricultural produce in small containers for marketing retail
(c) using together all agricultural input for raising production
(d) using all input and output in the form of packets

182. By economic drain we mean
(a) pumping in of the foreign resources in the Indian economy
(b) use of natural resources to promote economic growth
(c) squeeze of India by the Britishers in the form of various types of payments
(d) none of the above

183. Convertibility of the rupee implies
(a) being able to convert rupee notes into gold
(b) allowing the value of the rupee to the fixed by market forces
(c) freely permitting the conversion of rupee to other major currencies and vice versa
(d) developing an international market for currencies in India

184. Corporation tax
(a) is levied by the Central government and appropriated by it
(b) is levied by the State government separately
(c) is levied by the Central government and shared by the centre and the states
(d) is levied by the Central government and appropriated by the states

185. Deficit financing leads to inflation in general, but it can be checked if
(a) government expenditure leads to increase in the aggregate supply in ratio of aggregate demand
(b) only aggregate demand is increased
(c) all the expenditure is denoted national debt payment only
(d) all the above

ANSWERS

1. (a)	**2. (b)**	**3. (a)**	**4. (b)**	**5. (a)**	**6. (c)**	**7. (c)**	**8. (cb**	**9. (d)**	**10. (a)**
11. (d)	**12. (c)**	**13. (b)**	**14. (d)**	**15. (d)**	**16. (a)**	**17. (d)**	**18. (b)**	**19. (d)**	**20. (d)**
21. (a)	**22. (c)**	**23. (b)**	**24. (A)**	**25. (c)**	**26. (d)**	**27. (d)**	**28. (c)**	**29. (b)**	**30. (c)**
31. (a)	**32. (a)**	**33. (d)**	**34. (c)**	**35. (d)**	**36. (b)**	**37. (c)**	**38. (d)**	**39. (b)**	**40. (a)**
41. (a)	**42. (c)**	**43. (a)**	**44. (a)**	**45. (a)**	**46. (d)**	**47. (c)**	**48. (b)**	**49. (b)**	**50. (c)**
51. (c)	**52. (a)**	**53. (a)**	**54. (b)**	**55. (d)**	**56. (c)**	**57. (a)**	**58. (b)**	**59. (b)**	**60. (a)**
61. (a)	**62. (b)**	**63. (a)**	**64. (b)**	**65. (d)**	**66. (c)**	**67. (b)**	**68. (b)**	**69. (a)**	**70. (a)**
71. (b)	**72. (b)**	**73. (b)**	**74. (a)**	**75. (c)**	**76. (a)**	**77. (d)**	**78. (c)**	**79. (b)**	**80. (a)**
81. (a)	**82. (b)**	**83. (c)**	**84. (b)**	**85. (b)**	**86. (c)**	**87. (c)**	**88. (d)**	**89. (a)**	**90. (b)**
91. (b)	**92. (c)**	**93. (d)**	**94. (b)**	**95. (d)**	**96. (d)**	**97. (d)**	**98. (a)**	**99. (c)**	**100. (d)**
101. (b)	**102. (d)**	**103. (a)**	**104. (a)**	**105. (c)**	**106. (d)**	**107. (b)**	**108. (a)**	**109. (d)**	**110. (b)**
111. (d)	**112. (a)**	**113. (d)**	**114. (b)**	**115. (d)**	**116. (c)**	**117. (d)**	**118. (d)**	**119. (a)**	**120. (d)**
121. (a)	**122. (c)**	**123. (a)**	**124. (d)**	**125. (b)**	**126. (d)**	**127. (d)**	**128. (b)**	**129. (a)**	**130. (d)**
131. (d)	**132. (a)**	**133. (d)**	**134. (d)**	**135. (a)**	**136. (d)**	**137. (d)**	**138. (d)**	**139. (c)**	**140. (c)**
141. (a)	**142. (a)**	**143. (a)**	**144. (a)**	**145. (c)**	**146. (d)**	**147. (d)**	**148. (c)**	**149. (a)**	**150. (b)**
151. (d)	**152. (d)**	**153. (c)**	**154. (b)**	**155. (b)**	**156. (d)**	**157. (b)**	**158. (c)**	**159. (a)**	**160. (a)**
161. (c)	**162. (b)**	**163. (a)**	**164. (a)**	**165. (a)**	**166. (c)**	**167. (a)**	**168. (b)**	**169. (a)**	**170. (a)**
171. (a)	**172. (a)**	**173. (c)**	**174. (d)**	**175. (a)**	**176. (d)**	**177. (c)**	**178. (d)**	**179. (a)**	**180. (a)**
181. (c)	**182. (c)**	**183. (c)**	**184. (d)**	**185. (d)**	**186. (a)**	**187. (b)**	**188. (d)**	**189. (c)**	**190. (b)**
191. (b)	**192. (d)**	**193. (a)**	**194. (c)**	**195. (d)**	**196. (c)**	**187. (d)**	**198. (d)**	**199. (d)**	**200. (a)**