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(CDOE)

M.A.ECONOMICS

SEMESTER - I

CORE IV: INDIAN ECONOMIC DEVELOPMENT AND POLICY

(Candidates admitted from 2025 onwards)

PERIYAR UNIVERSITY

CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)

M.A Economics 2025 admission onwards

CORE II

Indian Economic Development and Policy

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SEMESTER–I

CORE – II

INDIAN ECONOMIC DEVELOPMENT AND POLICY

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Introduction

Growth and Structural Change in the Indian Economy at Independence - At the time of India's independence in 1947, the Indian economy was in a dire state due to over two centuries of colonial rule. The legacy of British colonial policies left the country with a poor industrial base, a predominantly agrarian economy, and deep social and economic inequalities. Post-independence, India faced the monumental task of reshaping its economic structure and developing policies that would guide its transformation.

Economic Condition of India at Independence (1947)

At the time of India's independence in 1947, the Indian economy was in a weakened and underdeveloped state. The legacy of British colonial rule had left India with several structural weaknesses that hindered its economic potential. The economic condition at independence can be understood in terms of the following major aspects:

1. Agrarian Economy

- **Prevalence of Agriculture**: A large proportion of India's population (around 70-75%) was engaged in agriculture, and the country was predominantly rural. Agriculture, however, was not modernized or highly productive. It remained largely traditional, with poor techniques and limited use of fertilizers, machinery, or irrigation.
- **Low Agricultural Productivity**: The productivity of land and crops was low due to the lack of modern techniques, poor soil management, and inadequate irrigation facilities. Despite having fertile land, India faced frequent famines, food shortages, and crop failures, especially in the context of population growth.
- **Land Tenure System**: The British land revenue system (such as the Zamindari system) had led to exploitative landholding patterns. Large landlords (zamindars) controlled vast areas of land, while the actual cultivators (peasants) often had insecure land rights and were heavily taxed. This led to widespread poverty and rural indebtedness.

2. Industrial Backwardness

- **Limited Industrial Base**: At the time of independence, India had an underdeveloped industrial base. The British had intentionally avoided promoting industrialization in India, as their colonial interests centered on the extraction of raw materials rather than the development of local industries.
- **Lack of Heavy Industries**: The country had only a few industries, with most concentrated in textiles (such as cotton mills) and a small-scale manufacturing sector. India lacked key heavy industries like steel, machinery, and chemicals, which were essential for economic growth.
- **Dependence on Imports**: India was heavily dependent on imported goods, particularly industrial products and machinery, as domestic production capacity was minimal. At the same time, the country exported raw materials like cotton, jute, and minerals to British industries.

3. Colonial Economic Policies

- **Drain of Wealth**: British colonial policies were designed to extract wealth from India and transfer it to Britain. India's raw materials were used to fuel the Industrial Revolution in Britain, and the country became a market for British manufactured goods. This led to a continuous drain of resources from India, stunting its economic growth.
- **Economic Exploitation**: The British emphasis on cash crops (such as indigo, cotton, and jute) for export left India dependent on these commodities, while neglecting food crops, which contributed to famines and food insecurity. This exploitation of Indian agriculture caused severe economic distress, particularly in rural areas.
- **Underdeveloped Infrastructure**: The British did build some infrastructure, such as the railway system, but this was primarily designed to facilitate the extraction of resources from rural India to the ports for export. Basic infrastructure for industrial and agricultural growth, such as irrigation systems, electricity generation, and roads, was insufficient.

4. Poverty and Unemployment

- **Widespread Poverty**: India was one of the poorest countries in the world at the time of independence, with an overwhelming majority of the population living below the poverty line. Many Indians lacked access to basic necessities like food, shelter, healthcare, and education.
- **High Unemployment**: Employment opportunities were scarce, especially in the industrial and organized sectors. Large sections of the population were employed in agriculture or the informal sector, with limited opportunities for skilled or formal employment.
- **Low Human Development**: India's literacy rate at the time of independence was extremely low, around 12-15%, with very limited access to formal education. This low level of education, combined with high illiteracy rates, contributed to India's inability to develop a skilled workforce to drive industrial and economic growth.

5. Lack of Financial Infrastructure

- **Underdeveloped Financial System**: The financial system in India at the time was rudimentary. There were few commercial banks, and those that existed were often concentrated in urban areas. The lack of an efficient banking system made it difficult for businesses, especially in agriculture and small-scale industries, to access credit.
- **Limited Investment in Development**: Due to the lack of a developed financial system and a reliance on foreign capital, investment in key sectors like education, healthcare, infrastructure, and industrial development was minimal. This resulted in a stagnant economy with little capacity for self-sustained growth.

6. Economic Inequality

- **Social and Regional Disparities**: There were significant disparities in income, wealth, and economic development between various social groups (e.g., between urban and rural areas, and between the rich and the poor) and regions (e.g., the northern and southern parts of India). For example, some regions were better developed than others in terms of infrastructure, industry, and education.
- **Caste System and Discrimination**: Economic inequalities were exacerbated by the caste system, with lower-caste groups and marginalized communities having limited access to

land, education, and employment opportunities. The legacy of social stratification also limited the potential for equitable economic development.

7. Trade Imbalances

- **Dependence on Imports**: India had a high dependency on imports, particularly for industrial goods and technologies. The country's export profile was largely centered on raw materials like cotton, tea, and jute. This created a negative balance of trade, which led to a drain of foreign exchange.
- **Weak Currency**: India's currency, the Indian rupee, was weak, and the country did not have sufficient foreign reserves to support economic development. This was one of the reasons why the country had to rely on foreign aid and loans to meet its financial needs.

8. Post-Independence Challenges

- **Partition Impact**: The partition of India in 1947 also had severe economic consequences. The division led to the loss of valuable resources, industries, and markets. For example, the newly formed Pakistan controlled the key jute-producing areas of Bengal, which had significant economic implications for India's jute industry.
- **Refugee Crisis**: The mass migration of refugees post-partition led to the displacement of millions of people, further straining India's already limited resources. Many refugees had to be resettled in new regions, which created pressure on housing, food, and social services.

Economic Policy Framework Post-Independence - Post-independence, India's economic strategy was shaped by a vision to build an industrialized, self-reliant, and equitable economy. The Indian government adopted a planned approach to economic development, emphasizing state intervention and public sector involvement.

1. Planning and the Role of the State

- **Mixed Economy**: India adopted a mixed economy model where both the public and private sectors coexisted. However, the state took on a dominant role, especially in the industrial and infrastructure sectors, which were seen as crucial for economic growth.

- **Five-Year Plans**: The Indian government, under the leadership of Prime Minister Jawaharlal Nehru, established the Planning Commission in 1950 to formulate and implement Five-Year Plans. The Planning Commission was tasked with setting targets for growth and allocating resources to achieve those targets.
- **Industrial Policy**: The government prioritized industrialization, focusing on establishing a base of heavy industries like steel, energy, and machinery. This was in line with Nehru's vision of building a self-sufficient economy.
- **Import Substitution and Self-Reliance**: The policy of import substitution was adopted, aiming to reduce dependence on foreign countries for essential goods. This involved the creation of protective tariffs and the development of domestic industries.

2. Agricultural Policy

- **Green Revolution (1960s)**: To address food shortages and improve agricultural productivity, the government introduced measures like the Green Revolution in the 1960s. This focused on the use of high-yield variety seeds, chemical fertilizers, and modern irrigation techniques. While it significantly increased food production in regions like Punjab and Haryana, it also led to regional disparities and environmental concerns.
- **Land Reforms**: In the early years after independence, land reforms were introduced to redistribute land and improve the position of tenant farmers, but the success of these reforms was limited due to poor implementation and political resistance.

3. The Role of Public Sector Enterprises

- The government played an active role in setting up and running public sector enterprises (PSEs) in key sectors such as steel, coal, transport, power, and heavy machinery.
- The Industrial Policy Resolution of 1956 laid out the roadmap for industrial development, with a special emphasis on public sector involvement in strategic industries. The public sector was seen as essential for promoting industrial growth and ensuring that critical sectors remained under government control.

4. Challenges Faced by the Indian Economy

- **Economic Inequality**: Despite efforts in redistribution, India continued to face massive income inequality, with wealth concentrated in a few urban areas, while rural regions lagged behind.
- **Poverty**: The majority of India's population remained impoverished, especially in rural areas, despite the government's developmental policies.
- **Population Growth**: Rapid population growth (from 350 million in 1947 to over 1.4 billion by the 2020s) placed additional strain on the economy, particularly in terms of employment, food, and infrastructure.
- **Dependency on Agriculture**: While industrialization was prioritized, India remained heavily dependent on agriculture, which remained vulnerable to fluctuations in monsoon rains, poor yields, and low productivity.
- **Insufficient Infrastructure**: India's infrastructure remained inadequate, which hindered the smooth movement of goods, people, and services necessary for economic development.

Statist policy - A statist policy refers to an economic and political approach where the government plays a dominant role in controlling and regulating the economy. In a statist system, the state assumes significant responsibility for economic planning, decision-making, and the ownership or regulation of key industries. This system can involve varying degrees of government intervention, but in general, it places less emphasis on free-market forces and private enterprise compared to other economic systems.

Features of Statist Policy

1. **Government Control**: The state typically controls or owns critical industries such as energy, transportation, healthcare, and education. The government may also regulate or manage key aspects of other sectors, such as finance, manufacturing, and trade.
2. **Centralized Planning**: In many statist systems, the government makes central economic decisions, such as determining what goods and services are produced, how they are produced, and at what price. This is often done through comprehensive economic plans (e.g., five-year plans in socialist economies).

3. **Limited Market Forces**: Statist policies minimize the role of market forces in determining supply and demand. Prices, wages, and production levels may be set or heavily influenced by the government, rather than through free-market competition.
4. **Welfare State**: The government takes on a larger role in social welfare, providing public goods and services like healthcare, education, and housing, often with the goal of ensuring equality and reducing poverty.
5. **Monopolies**: The state often holds monopolies over certain industries and services, removing or limiting private sector competition in those areas. For instance, utilities, public transport, or even banking may be entirely state-controlled.
6. **Social and Economic Equity**: Statist systems are typically focused on ensuring equitable distribution of wealth and reducing social inequality. The government may implement policies that aim to redistribute wealth and provide a social safety net for citizens.

Historical and Modern Examples:

- **Soviet Union**: Under Soviet Communism, the government exercised full control over all sectors of the economy, with centralized planning directing industrial production, agriculture, and trade. The state was the primary employer, and most resources were owned and managed by the government.
- **North Korea**: North Korea remains one of the most centralized statist economies today, with the government controlling nearly all aspects of the economy, including industries, agriculture, and even consumer goods. There is little to no private enterprise allowed.
- **Cuba**: Cuba has historically followed statist policies, with the government owning and controlling most industries and services. Although there have been reforms in recent years to allow limited private enterprise, the state still plays a central role in economic planning.
- **China (Pre-Reform Era)**: Before China began its market reforms in the late 1970s, its economy was largely statist, with the government dictating production and distribution of goods through central planning. The state controlled nearly all major sectors of the economy, and private enterprise was limited.

Advantages of Statist Policies

- **Economic Stability**: A government-controlled economy can help mitigate the boom-and-bust cycles seen in market-driven economies, leading to more stability and predictability.
- **Equity and Social Welfare**: Statist policies often prioritize income redistribution and providing essential public services, which can reduce social inequality and ensure basic needs for all citizens.
- **Long-term Planning**: Centralized planning allows governments to make long-term investments in infrastructure, education, and research without the pressures of short-term profit motives.

Disadvantages of Statist Policies

- **Inefficiency**: Without competition, state-controlled industries can become inefficient, producing goods and services at higher costs. Bureaucratic inefficiencies often slow down decision-making processes.
- **Lack of Innovation**: A lack of market competition can reduce the incentive for innovation and entrepreneurship. In statist systems, firms often have less motivation to improve products, cut costs, or find new markets.
- **Corruption and Bureaucracy**: With significant government control, statist systems may suffer from high levels of bureaucracy and corruption, as the state holds immense power and decision-making authority.
- **Limited Personal Freedom**: The state's control over the economy can extend to other areas of life, sometimes limiting individual freedom. This can include restrictions on entrepreneurship, travel, and personal choices.

Statist policy involves significant government control over the economy and society. While it can provide stability and promote equity, it often faces challenges like inefficiency, lack of innovation, and potential authoritarianism. In many cases, countries with statist policies have moved toward more market-oriented systems over time, seeking to balance government control with the benefits of market dynamics.

The transition to a market-oriented policy - The transition to a market-oriented policy refers to the process by which a country moves from a heavily state-controlled or centrally planned economy (statist policy) to an economy where market forces (such as supply and demand) play a more dominant role in determining the production, pricing, and distribution of goods and services. This transition typically involves shifting away from government ownership and control over industries toward privatization, deregulation, and the fostering of competition.

Features of the Transition

1. **Privatization**: One of the first steps in transitioning to a market-oriented policy is the privatization of state-owned enterprises (SOEs). The government sells these enterprises to private individuals or companies, allowing the private sector to take over industries such as energy, telecommunications, and manufacturing.
2. **Deregulation**: To encourage competition and reduce government control, deregulation often takes place. This means removing government-imposed restrictions on businesses, such as price controls, quotas, and subsidies. A less regulated environment allows companies to respond to market signals more freely.
3. **Liberalization of Trade**: Countries often open up their economies to international trade during the transition, removing tariffs, quotas, and trade barriers that protect domestic industries. This process fosters greater competition and integration into the global economy.
4. **Market-Based Pricing**: Instead of government-set prices, the market begins to determine the prices of goods and services. The government gradually reduces its control over wages, consumer goods prices, and other market elements, allowing supply and demand to dictate pricing.
5. **Development of Financial Markets**: As part of the shift, countries may establish or strengthen their financial markets, including stock exchanges and banking systems, to support private investment and facilitate access to capital for businesses.
6. **Legal and Institutional Reforms**: Transitioning to a market economy often requires significant changes in legal frameworks, such as strengthening property rights, enforcing contracts, and establishing anti-monopoly and competition laws to ensure fair business practices.

7. **Monetary and Fiscal Policy Reform**: Governments typically introduce market-oriented fiscal and monetary policies. This may include the liberalization of interest rates, inflation targeting by central banks, and creating budgetary frameworks that align with a market-driven approach.

Challenges in the Transition

1. **Economic Instability**: The transition from a centrally planned to a market economy can lead to short-term economic instability. This may include inflation, unemployment, and disruptions in the supply of goods and services as state-run industries are restructured or privatized.

2. **Social Inequality**: A market economy can lead to an increase in social inequality, especially in the short term. Privatization may concentrate wealth in the hands of a few, and social safety nets may be weaker compared to a statist system, which can lead to growing disparities between the rich and poor.

3. **Unemployment**: Many state-owned industries are inefficient, and privatization or restructuring may result in job losses. Workers may face significant challenges as industries become more competitive and automated, leading to unemployment in the short term.

4. **Political Resistance**: The transition to a market-oriented policy can face resistance from entrenched political elites or sections of society that benefit from the statist system. Additionally, the speed of reforms can provoke social unrest or dissatisfaction among the population.

5. **Institutional Weakness**: In many cases, countries transitioning to a market economy face challenges in building the necessary institutions (such as legal systems, financial institutions, and regulatory frameworks) to support a functioning market. Without strong institutions, the transition may falter.

Phases of Transition

1. **Shock Therapy**: This is an approach often used by countries that want to implement rapid economic reforms. It involves quick and sweeping measures, such as immediate privatization of state-owned enterprises, deregulation, and opening the economy to

international trade. It can bring fast results but also significant social and economic costs in the short run.

Example: In the 1990s, many post-Soviet countries (e.g., Russia, Poland) implemented shock therapy to move quickly from a centrally planned to a market-oriented economy. While they experienced economic growth later, the initial transition period was painful with high inflation and unemployment.

2. **Gradual Transition**: Some countries opt for a slower, more gradual transition to a market economy. This approach involves incremental reforms, starting with less sensitive areas of the economy and gradually expanding market principles over time. While this approach might reduce the risk of social upheaval, it can also slow down the process of economic growth and development.

Example: China's gradual transition since the late 1970s, when it began to implement market reforms under Deng Xiaoping, represents a more controlled approach to shifting towards a market-oriented economy.

3. **Mixed Approach**: Some countries combine elements of both shock therapy and gradual reform, taking steps toward liberalization and privatization while maintaining social welfare programs and government involvement in certain sectors of the economy.

Example: India began liberalizing its economy in 1991 with the introduction of economic reforms, gradually reducing government control and opening up its economy to international trade and investment, while still maintaining government involvement in key sectors like agriculture and public services.

Benefits of Transitioning to a Market-Oriented Policy

1. **Economic Growth**: Over time, market-oriented economies tend to experience faster economic growth due to the efficiency of market-driven allocation of resources, increased competition, and innovation.

2. **Improved Efficiency**: Privatization and competition can lead to increased productivity and efficiency. Private companies, driven by profit motives, often run more efficiently than state-owned enterprises.

3. **Increased Consumer Choice**: A market economy encourages businesses to innovate and produce a wider variety of goods and services, often leading to lower prices and better quality, benefiting consumers.

4. **Global Integration**: By opening up to international trade and foreign investment, countries can access broader markets, attract capital, and benefit from the exchange of ideas, technology, and expertise.

Examples of Transition

- **Poland**: After the fall of communism in 1989, Poland undertook a rapid transition to a market economy, implementing shock therapy reforms. While the process was difficult, Poland eventually experienced significant economic growth and became a member of the European Union in 2004.

- **China**: Starting in 1978, China embarked on a gradual transition under Deng Xiaoping, introducing market reforms while maintaining a significant role for the state. China's shift from a closed, centrally planned economy to a mixed socialist-market economy has led to unprecedented economic growth and development, particularly since the 1990s.

- **Russia**: After the collapse of the Soviet Union, Russia transitioned to a market economy with mixed results. The country implemented shock therapy but faced significant challenges such as inflation, unemployment, and oligarchy control over privatized industries.

The transition from a statist to a market-oriented policy can lead to greater economic growth, efficiency, and innovation, but it also presents significant challenges, including economic instability, social inequality, and political resistance. The success of this transition depends on the pace of reforms, the strength of institutions, and how well the government manages the social and economic costs of the shift.

The Planning Commission and NITI Aayog - The Planning Commission and NITI Aayog have both played key roles in shaping India's economic planning and development strategies, though their functions and objectives have evolved significantly over time.

1. Planning Commission (1950–2014)

The Planning Commission was established in 1950 by the Government of India under the leadership of Jawaharlal Nehru, with the primary goal of centralizing economic planning to guide the country towards development after gaining independence. The Commission played a central role in India's planned economy, primarily during the first few decades after independence, when the country followed socialist-inspired economic policies.

The Roles and Functions of the Planning Commission:

1. **Economic Planning**: The Planning Commission was responsible for formulating and overseeing India's Five-Year Plans. These plans laid out the objectives, priorities, and strategies for the country's economic development, with a focus on industrialization, agriculture, and infrastructure development. The first Five-Year Plan (1951-1956) emphasized agriculture, while later plans focused on heavy industries and social sectors.
2. **Resource Allocation**: It played a significant role in determining the allocation of resources for different sectors. The Commission helped allocate funds to states and central ministries to implement various development projects in line with the overall plan.
3. **Monitoring and Evaluation**: The Planning Commission had the responsibility of monitoring the progress of the Five-Year Plans and ensuring that various development goals were being achieved. It evaluated the success or failure of various sectors and adjusted strategies accordingly.
4. **Centralized Coordination**: As part of India's centrally planned economy, the Planning Commission coordinated efforts among various government departments and states, ensuring that there was alignment in national development goals. It acted as the primary body for coordinating policy-making at the national level.
5. **Public Sector Focus**: The Planning Commission emphasized the role of the public sector in industrialization, infrastructure, and key sectors of the economy. This was in line with the socialist-inspired policies of the time, which sought to limit private sector control over vital industries.

End of the Planning Commission (2014):

With the shift in India's economic approach after the 1990s, particularly following liberalization and the increasing emphasis on market-driven policies, the Planning

Commission's role became less relevant. In 2014, the government, under Prime Minister Narendra Modi, decided to dissolve the Planning Commission and replace it with NITI Aayog.

2. NITI Aayog (National Institution for Transforming India) - Established in 2015- The NITI Aayog was established in 2015 with the goal of transforming India into a more inclusive, innovative, and sustainable economy. It was created to replace the Planning Commission, which had become outdated in the context of a more open and market-oriented economy.

The Roles and Functions of NITI Aayog

1. **Policy Think Tank and Advisory Body**: NITI Aayog acts as a policy think tank for the Government of India, providing strategic and technical advice on various developmental issues. Unlike the Planning Commission, which was a centralized body with a focus on resource allocation and planning, NITI Aayog focuses more on formulating long-term strategies and guiding the government on policies that promote inclusive growth and sustainable development.

2. **Collaborative Governance**: NITI Aayog emphasizes cooperative federalism, aiming to foster greater cooperation between the central government and state governments. It is designed to work closely with states to address their specific developmental needs while aligning with national goals. The focus is on ensuring that all states are able to chart their own growth paths, taking into account regional disparities.

3. **Decentralized Planning**: Unlike the centrally planned approach of the Planning Commission, NITI Aayog advocates for decentralized planning, encouraging states to be active participants in setting their developmental priorities. NITI Aayog also focuses on empowering local governments and grassroots organizations.

4. **Sustainable and Inclusive Development**: NITI Aayog promotes initiatives that focus on sustainable growth, poverty alleviation, and social equity. It is tasked with helping India achieve the Sustainable Development Goals (SDGs), while emphasizing the importance of environmental sustainability, social inclusion, and economic growth.

5. **Monitoring and Evaluation**: NITI Aayog tracks the progress of various development programs and initiatives. It helps the government assess the effectiveness of various policies and offers guidance for improvement. The institution has a significant role in

monitoring key government schemes such as the Swachh Bharat Mission and Skill India, among others.

6. **Innovation and Entrepreneurship**: One of NITI Aayog's key initiatives is promoting innovation and entrepreneurship across the country. It encourages the creation of new industries, innovation hubs, and start-up ecosystems, and it has been instrumental in fostering programs like Atal Innovation Mission (AIM) and the National Strategy for Artificial Intelligence.
7. **Transforming Agriculture and Rural Development**: NITI Aayog has been involved in improving the agricultural sector, including through the formulation of policies for improving rural development, providing better infrastructure for agriculture, and addressing farmer distress.
8. **Private Sector and Global Integration**: NITI Aayog supports greater private sector participation in the economy. It is focused on ensuring that India's economy is integrated into the global economy through trade, investment, and technological advancement.

Differences between Planning Commission and NITI Aayog:

- **Role and Approach**: The Planning Commission had a top-down, centralized approach to economic planning, where it was responsible for allocating resources across sectors. NITI Aayog, on the other hand, emphasizes collaborative, decentralized planning and focuses on policy formulation, strategy, and monitoring, rather than direct resource allocation.
- **Resource Allocation**: The Planning Commission was responsible for managing and allocating funds to states based on the Five-Year Plans, whereas NITI Aayog does not have this responsibility and instead acts as an advisor and coordinator.
- **Focus on Private Sector**: While the Planning Commission emphasized the public sector as the main driver of growth, NITI Aayog has a more market-oriented approach, encouraging the private sector to play a larger role in driving economic growth and innovation.
- **Decentralization and Cooperative Federalism**: NITI Aayog promotes cooperative federalism, giving states a more active role in economic planning and development. The

Planning Commission, by contrast, had a centralized approach, where the central government controlled and directed much of the development.

Planning Commission is Played a central role in India's economic development, focusing on creating and implementing Five-Year Plans, centrally allocating resources, and promoting public sector-driven growth.

NITI Aayog is Focuses on strategy, policy formulation, innovation, and fostering cooperative federalism. It aligns India's development with global trends, emphasizing decentralization, private sector participation, and long-term sustainable growth.

The shift from the Planning Commission to NITI Aayog marked a transition from a model of centralized economic planning to one that promotes more flexible, inclusive, and decentralized development, in line with India's growing market-oriented economy.

Phases of growth (1950-1980 and 1980 onwards)

The economic growth of India can be broadly divided into two distinct phases: the pre-1980 phase (1950-1980), which was characterized by a socialist-inspired, state-led economic model, and the post-1980 phase (1980 onwards), which saw the beginning of market-oriented reforms and liberalization. Below is a detailed explanation of both these phases:

Phase 1: 1950-1980 – The State-Led, Socialist Era

In the early decades after India's independence in 1947, the country followed a mixed economy model with a strong emphasis on state control over key sectors of the economy. This period is often associated with economic planning, public sector dominance, and the central role of the government in shaping the economy.

Features of Economic Growth (1950-1980):

1. **Planning and the Five-Year Plans:**

- The Indian government, under the Planning Commission, adopted a model of centralized planning, and the country embarked on a series of Five-Year Plans (starting in 1951). These plans aimed to address the country's development challenges, especially in terms of industrialization, agriculture, and poverty alleviation.

- The emphasis was on self-sufficiency, with the government taking a central role in the allocation of resources, directing investment, and regulating industries.

2. **Import Substitution and Self-Sufficiency:**

- A key economic strategy was import substitution, where the government focused on reducing India's dependence on foreign goods by encouraging domestic production of goods that were previously imported.
- **Public sector enterprises** (PSUs) were established in strategic sectors like steel, energy, telecommunications, and transportation to reduce reliance on foreign capital and technology.

3. **Heavy Industrialization:**

- India followed a policy of heavy industrialization, with major investments directed toward large-scale industries like steel, coal, and power generation.
- Hindustan Steel, Bharat Heavy Electricals, and Indian Oil Corporation were examples of state-led industrial initiatives. The idea was to develop an industrial base that could support national economic growth and provide employment.

4. **Agricultural Reforms:**

- Agricultural growth was pursued through programs like the Green Revolution in the 1960s. This aimed to increase food production by introducing high-yielding varieties of crops and modern agricultural techniques, particularly in states like Punjab and Haryana.
- The Green Revolution, while successful in increasing food production and reducing dependency on food imports, had uneven results across the country, with benefits concentrated in certain regions and for certain crops.

5. **License Raj and State Control:**

- The government implemented the License Raj, a system where industries needed government licenses and permits to produce and expand. This created a highly regulated economy and often led to inefficiency, corruption, and a lack of innovation.
- There was also a focus on import restrictions and a high tariff regime, which made Indian markets less competitive internationally.

6. **Slow Growth and Economic Challenges:**

- During this phase, India experienced relatively low economic growth (often referred to as the "Hindu rate of growth"), with annual growth rates hovering around 3-4%.
- Structural problems, such as bureaucratic inefficiency, poor infrastructure, and lack of technological advancement, limited the country's ability to grow at a faster pace.

Challenges Faced During 1950-1980:

- **Low Growth**: Despite the focus on industrialization, India's economic growth was slow, with limited improvement in living standards for the majority of the population.
- **High Poverty**: The country continued to face high levels of poverty and unemployment.
- **Agricultural Disparities**: While the Green Revolution helped increase food production in certain regions, it did little to address widespread rural poverty or improve the lot of small farmers.
- **Industrial Inefficiency**: The state-dominated industrial sector faced problems like over-regulation, inefficiency, and low productivity due to lack of competition.
- **Bureaucratic Control**: The License Raj system created significant barriers to entrepreneurship and innovation, stifling private sector growth.

Phase 2: 1980 Onwards – Liberalization and Market-Oriented Growth

The 1980s marked the beginning of significant changes in India's economic policies, culminating in major reforms in the early 1990s. The shift towards a market-oriented economy, economic liberalization, and global integration transformed the country's growth trajectory.

Features of Economic Growth (1980 Onwards):

Shift Toward Market-Oriented Policies:

- Beginning in the 1980s, Indira Gandhi's government started to loosen some of the tight controls over the economy, including reducing restrictions on private sector investment and encouraging more foreign trade.
- However, the major policy shift came in 1991, under Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh, when India implemented wide-ranging economic reforms.

Economic Liberalization (1991 Reforms):

- The 1991 economic crisis, triggered by a balance of payments problem and falling foreign exchange reserves, forced India to adopt major liberalization measures.
- The government implemented structural reforms that included:
- **Devaluation of the Rupee** to make Indian exports more competitive.
- **Reduction of tariffs** and import barriers to promote international trade.
- **Privatization** of state-owned enterprises, leading to greater private sector participation.
- **Deregulation** of industries and removal of the License Raj system.
- **Foreign Direct Investment (FDI)** policies were opened up to attract foreign capital and technology.
- These reforms aimed to integrate India into the global economy, encourage competition, and boost growth.

Economic Growth Surge:

- Following the reforms, India's economy grew rapidly. The GDP growth rate surged to around 6-7% per year in the 1990s and 2000s, a significant improvement over the slow growth of the previous decades.
- The country began to see the development of key sectors such as information technology (IT), services, and manufacturing.

Growth of the Services Sector:

- India's services sector, particularly information technology (IT), business process outsourcing (BPO), and financial services, became major contributors to economic growth.
- Cities like Bangalore, Hyderabad, and Chennai emerged as global hubs for IT and software services.

Foreign Trade and Investment:

- As a result of liberalization, India’s foreign trade grew rapidly, with exports of goods and services expanding.
- FDI inflows increased, particularly in sectors such as telecommunications, infrastructure, and retail.

Rise of the Private Sector:

- The role of the private sector expanded significantly. Indian companies like Tata, Reliance, and Infosys became globally competitive, and the stock market developed into a more dynamic part of the economy.
- Entrepreneurship flourished, with numerous small and medium enterprises (SMEs) and startups emerging.

Poverty Reduction and Middle-Class Expansion:

- The rapid growth of the economy led to a significant reduction in poverty rates, although challenges remain, especially in rural areas.
- The Indian middle class expanded dramatically, fueling domestic consumption and driving further economic growth.

Infrastructure and Modernization:

- There was greater focus on improving infrastructure, including transportation, telecommunications, and energy.
- The Indian government, along with private sector participation, undertook projects to modernize infrastructure and build new cities and industrial hubs.

Challenges Faced in the Post-1980 Phase:

- **Income Inequality**: Despite rapid growth, income inequality and regional disparities persisted. The benefits of growth were not evenly distributed across all sections of society.

- **Agricultural Stagnation**: While the services and industrial sectors boomed, agriculture, particularly in rural areas, faced stagnation, with inadequate reforms in landholding patterns and agriculture-related policies.
- **Infrastructure Bottlenecks**: Rapid urbanization created significant infrastructure challenges, including congestion, inadequate public services, and environmental concerns.
- **Social Issues**: Issues like unemployment, underemployment, and skill gaps remained significant barriers to sustainable growth.

- **1950-1980 (State-Led, Socialist Model)**: Focused on state control, public sector dominance, and import substitution, but the economy faced low growth, inefficiency, and poverty challenges.
- **1980 Onwards (Liberalization and Market-Oriented Growth)**: Marked by economic reforms, privatization, liberalization, and integration with the global economy, leading to rapid economic growth, especially in services, and significant improvements in living standards, though challenges like inequality remain.

The shift from a centrally planned economy to a more market-driven model in 1991 marked a turning point in India's economic history, resulting in higher growth rates and greater integration into the global economy.

The structural changes in the Indian economy - The structural changes in the Indian economy that have contributed to its remarkable turnaround are multifaceted, driven by key reforms, policy shifts, and evolving global dynamics. These changes are visible in the shifting share of GDP across different sectors, growing international trade and investment, and transformations in India's infrastructure, demographic patterns, and financial systems.

Factors Underlying Structural Change in the Indian Economy

1. Shift from Agriculture to Services and Industry

The most visible change in the Indian economy over the last few decades has been the shift from agriculture to services and manufacturing as the primary drivers of economic growth.

- **Agriculture's Declining Share in GDP**: In the early 1950s, agriculture contributed around 50% of India's GDP. However, over the years, its share has gradually declined. According to World Bank and Ministry of Statistics and Programme Implementation (MOSPI) data, the share of agriculture in India's GDP was 18.2% in 2021-22. This marks a substantial decline from 1950 when agriculture contributed nearly 50% of GDP. The decline of agriculture's share is indicative of the country's economic diversification.
- **Services Sector Growth**: The services sector has emerged as the dominant contributor to GDP. IT, business process outsourcing (BPO), financial services, and telecommunications have driven this transformation. In 2021-22, services accounted for 54.4% of India's GDP, making it the largest sector. This is a marked increase from the 1950s when services contributed only a small fraction to the economy. The rapid growth of the IT sector and BPOs has positioned India as a global hub for outsourcing. For example, India's IT exports were valued at $150 billion in 2021 (Source: NASSCOM).
- **Industry and Manufacturing**: Manufacturing has also seen a rise in its contribution to GDP, though it is still less dominant than services. Key sectors like automobiles, textiles, pharmaceuticals, and chemicals have grown substantially. In 2021-22, the industry sector, including manufacturing, accounted for 25.6% of GDP. This is an increase from the 18-20% share in the 1990s.

2. Economic Liberalization and Structural Reforms (1991 Onwards)

India's economic liberalization in 1991 marked the beginning of significant structural changes in the economy, transitioning from a closed, state-led economy to a market-oriented economy. These reforms played a major role in India's economic turnaround.

- **Trade Liberalization**: The reduction of tariffs and removal of non-tariff barriers allowed India to integrate with the global economy. India's exports grew from $18.7 billion in 1990-91 to $672 billion in 2021-22 (Source: Ministry of Commerce & Industry). FDI Inflows: India's Foreign Direct Investment (FDI) inflows also increased significantly post-1991. In 2021-22, FDI inflows reached a record $84.8 billion (Source: Department for Promotion of Industry and Internal Trade).

- **Privatization and Deregulation**: The government undertook privatization of state-owned enterprises (SOEs), easing restrictions on private enterprise and encouraging competition. The public sector's share in GDP has steadily declined, and privatization efforts have contributed to efficiency improvements across sectors.
- **Financial Sector Reforms**: The liberalization of the financial sector, including banking reforms and the establishment of new financial markets, increased access to capital and fostered investment in key sectors. According to the Reserve Bank of India (RBI), India's banking sector grew significantly after the reforms. The total assets of scheduled commercial banks rose from ₹13.64 trillion in 1991 to ₹205 trillion in 2022, reflecting the growing importance of the banking sector in the economy.

3. Growth of the Services Sector and the IT Boom

The services sector has been the primary engine of India's economic growth in recent decades, with the Information Technology (IT) and Business Process Outsourcing (BPO) sectors being pivotal to this transformation.

- **IT and BPO Industry**: India became the global leader in IT services, leveraging a large pool of skilled workers to offer software development, IT consulting, and outsourced services to international clients. In 2021, IT and business services exports reached $150 billion, contributing significantly to India's GDP and creating millions of jobs. The National Association of Software and Service Companies (NASSCOM) reports that the sector employed over 4.5 million people in 2021.
- **Growth in Financial Services**: The financial services sector, including banking, insurance, and non-banking financial companies (NBFCs), has also seen rapid growth. In 2021-22, the financial services sector accounted for 7.7% of India's GDP. The rise of digital banking and fintech has further expanded the sector's reach.

4. Infrastructure Development and Urbanization

The Indian government's focus on improving infrastructure has been instrumental in supporting economic growth. Investment in physical infrastructure (roads, airports, ports) and social infrastructure (healthcare, education) has enhanced productivity.

- **Transportation and Connectivity**: India has undertaken massive infrastructure projects to improve transportation and logistics. The Bharatmala Project (for national highways) and the development of new airports and ports have improved connectivity across the country. According to the Ministry of Road Transport and Highways, the total length of national highways increased from 58,000 km in 2000 to 1.4 lakh km in 2022, improving trade and transportation efficiency.
- **Urbanization**: Rapid urbanization has been a key factor in driving economic growth. The number of urban areas and cities in India has grown significantly, leading to increased demand for housing, infrastructure, and services. According to the Census of India 2011, around 31% of India's population lived in urban areas, and the proportion is expected to rise to over 40% by 2030.

5. Demographic Changes and the Rise of the Middle Class

India's young demographic and growing middle class have provided a large, dynamic workforce and boosted domestic consumption.

- **Demographic Dividend**: India's working-age population (15-64 years) is growing rapidly, which has been a key driver of economic growth. As per the National Sample Survey Office (NSSO), the working-age population in India increased from around 550 million in 2000 to over 700 million in 2021.
- **Rising Middle Class**: Economic growth has led to the expansion of the middle class, increasing domestic demand for goods, services, and infrastructure. According to the McKinsey Global Institute, India's middle class is expected to grow from 50 million in 2010 to more than 500 million by 2030, driving both consumption and investment.

6. Trade, Investment, and Global Integration

India's economic integration with the global economy has been a key factor behind its structural changes.

- **Increased Trade**: India's trade has expanded significantly post-liberalization, especially in sectors such as IT, textiles, pharmaceuticals, and automobiles. India's exports have increased from $18.7 billion in 1990-91 to $672 billion in 2021-22. Importantly, India's trade-to-GDP ratio has also grown significantly, reflecting its integration into global markets.
- **Foreign Direct Investment (FDI)**: FDI inflows have increased, bringing in capital, technology, and expertise. According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI inflows into India reached a record $84.8 billion in 2021-22

Questions

I 2-Mark Questions

1. What was the state of the Indian economy at the time of independence?

2. What is a statist policy?

3. What were the main objectives of the Planning Commission?

4. When was NITI Aayog established, and what is its role?

5. What is meant by structural change in an economy?

II 5-Mark Questions

1. Explain the differences between the statist policy (1950-1980) and market-oriented policy (1980 onwards).

2. What were the major factors behind India's economic turnaround post-1980?

3. How has the structure of the Indian economy changed since independence?

III 10-Mark Questions

1. Discuss the two phases of economic growth in India (1950-1980 and 1980 onwards).

2. How did economic policies evolve from Planning Commission to NITI Aayog?

3. Examine the structural changes in the Indian economy since independence.

Unit – 02

Agricultural and Industrial Sector

Agricultural Sector Performance in India

The agricultural sector has been a crucial part of the Indian economy, contributing to employment, food security, and rural livelihoods. Over the years, the performance of the agricultural sector has fluctuated due to various internal and external factors, but it has generally undergone transformations, especially post-liberalization.

Trends in Agricultural Sector Performance:

1. **Declining Share in GDP**: Over the decades, agriculture's share in India's GDP has declined, reflecting the economy's diversification into manufacturing and services. Agriculture contributed 18.2% to GDP in 2021-22, down from about 50% in the 1950s. However, it still remains a significant part of the economy, especially in rural areas.

2. **Growth in Agricultural Output**: India has witnessed growth in agricultural output, particularly in food grains, pulses, and horticulture. The green revolution in the 1960s marked a significant improvement in food grain production, especially wheat and rice. In 2020-21, India's total food grain production was estimated at around 305 million tons, the highest ever. This includes key staples like rice, wheat, and pulses.

3. **Sectoral Growth Rates**: The agricultural sector has witnessed fluctuating growth rates, often influenced by weather conditions, government policies, and market dynamics. The growth rate of agriculture in India has averaged around 2.5% annually over the last few decades. However, growth rates can vary, with years of monsoon failure or poor irrigation leading to stagnation.

4. **Diversification into Horticulture and Non-Cereal Crops**: India has seen increased cultivation of horticultural crops, including fruits, vegetables, and spices, which are more profitable than traditional cereals. India is the world's second-largest producer of fruits and vegetables. In 2021, it produced over 95 million tons of fruits and 180 million tons of vegetables.

5. **Increased Agricultural Exports**: India has also seen growth in agricultural exports, particularly in products like rice, tea, spices, and seafood. Agricultural exports were valued at $41.6 billion in 2021-22 (Source: Ministry of Commerce & Industry).

Determining Agricultural Growth

The growth and performance of the agricultural sector are determined by a combination of natural, economic, technological, and policy factors. Here are the key determinants of agricultural growth in India:

1. Climate and Weather Conditions

- **Monsoon Dependency**: Agriculture in India is heavily dependent on the monsoon rains, with nearly 60% of the cultivated area relying on rainfall for irrigation. Therefore, any fluctuation or failure in the monsoon significantly affects agricultural production.
- **Temperature and Soil Quality**: The performance of crops is also dependent on temperature variations and soil health, which are influenced by changing climate conditions.

Example: Droughts or irregular monsoons have led to lower crop yields, particularly in rainfed areas of Maharashtra, Telangana, and Tamil Nadu in certain years.

2. Irrigation Facilities

- **Irrigation Infrastructure**: India has made significant strides in increasing the coverage of irrigated land, which helps ensure agricultural growth even during years of inadequate rainfall.
- However, the availability and efficiency of irrigation systems like canals, tube wells, and rainwater harvesting still remain limited in several parts of the country.

According to the National Bank for Agriculture and Rural Development (NABARD), around 48% of India’s net sown area was irrigated as of 2021.

3. Technological Advancements and Modernization

- **Improved Crop Varieties**: The development of high-yielding varieties (HYVs) of crops such as wheat, rice, and maize during the Green Revolution in the 1960s greatly boosted agricultural productivity.
- **Mechanization**: The use of modern machinery for plowing, harvesting, and planting has improved productivity, reduced labor costs, and increased efficiency.
- Precision Agriculture: New technologies such as drip irrigation, soil sensors, and drones for monitoring crop health are helping to optimize input usage and increase output.

India's Green Revolution led to a significant increase in wheat production, from 11.2 million tons in 1960 to 107 million tons in 2021.

4. Fertilizers and Agrochemicals

- The use of fertilizers, pesticides, and herbicides has been crucial for increasing yields, especially in high-input, irrigated areas.
- **Excessive Use**: However, over-reliance on chemical fertilizers and pesticides has led to soil degradation, loss of soil fertility, and pollution of water bodies.

India is one of the largest consumers of fertilizers globally. In 2020-21, the consumption of urea (a key fertilizer) was around 31.9 million metric tons (Source: Department of Fertilizers, Government of India).

5. Credit and Financial Support

- **Access to Credit**: The availability of credit, particularly through institutions like the National Bank for Agriculture and Rural Development (NABARD), Rural Development Banks, and cooperative banks, plays a significant role in financing agricultural production and related activities.
- **Subsidies**: The government provides subsidies on fertilizers, seeds, and power, which are crucial in reducing the cost of production and supporting farmers.

In 2020-21, the government allocated around ₹1.34 lakh crore under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme to directly transfer income support to farmers.

6. Government Policies and Support

- **Price Support and MSP**: The government guarantees minimum support prices (MSP) for key crops like wheat, rice, cotton, and sugarcane, which stabilizes income for farmers and encourages production.
- **Subsidies and Schemes**: Several government schemes such as Pradhan Mantri Fasal Bima Yojana (PMFBY) for crop insurance, PM-KISAN for direct income support, and Rashtriya Krishi Vikas Yojana (RKVY) have been designed to improve agricultural productivity and farmers' income.

For example, the MSP for paddy was set at ₹1,868 per quintal for the 2021-22 season, which is an increase of approximately 2.6% from the previous year (Source: Ministry of Agriculture and Farmers Welfare).

7. Rural Infrastructure and Market Access

- **Rural Connectivity**: Efficient transportation networks (roads, railways) are essential for providing farmers access to markets and reducing post-harvest losses. The Pradhan Mantri Gram Sadak Yojana (PMGSY) aims to connect rural areas with better roads.
- **Cold Storage and Warehousing**: The lack of adequate storage facilities leads to high post-harvest losses. Government initiatives and private investments are working to address this issue, with an emphasis on cold storage and processing units.

The total number of rural markets in India has increased, with about 22,000 rural haats functioning as primary markets for agricultural goods.

8. International Trade and Export Markets

- **Export Demand**: The performance of the agricultural sector is also influenced by global demand for Indian agricultural products, such as rice, spices, tea, and seafood.
- **Trade Agreements**: Trade policies, such as bilateral and multilateral trade agreements, influence the export and import of agricultural commodities.

India's agricultural exports in 2021-22 were valued at $41.6 billion (Source: Ministry of Commerce & Industry), reflecting the growing significance of global trade.

The agricultural sector in India remains a key driver of the economy despite its declining share in GDP. The factors influencing agricultural growth are multifaceted, with major contributions from climatic conditions, irrigation infrastructure, technology adoption, government policies, and market access. India's agriculture is evolving with technological innovations and better rural infrastructure, but challenges like climate variability, inefficient use of fertilizers, and income disparity among farmers persist.

The performance of the sector is closely tied to these factors, with the government playing a crucial role in providing financial support, subsidies, and ensuring price stability through policies like MSP. Going forward, the focus on sustainable farming practices, improving infrastructure, and adopting technology will be key to maintaining and enhancing agricultural growth.

Factors Underlying Food Inflation in India

Food inflation is the increase in the prices of food items over a period of time, and it is a critical economic indicator, particularly in a country like India where food constitutes a significant portion of household spending. Several factors contribute to food inflation, and these factors can be broadly categorized into supply-side factors, demand-side factors, and policy-related factors. Below is an overview of the main factors underlying food inflation:

1. Supply-Side Factors

a. Weather and Climate Conditions

- **Monsoon Dependency**: India's agricultural sector is highly dependent on monsoon rains. Inadequate rainfall, delayed monsoons, or drought conditions can severely impact crop production, leading to a reduction in the supply of food, which results in price hikes. A failure in the monsoon or an erratic monsoon season often leads to shortages in staple crops like rice, wheat, and pulses, pushing their prices higher. According to the India Meteorological Department (IMD), India experienced a deficit monsoon in 2019, which negatively impacted agriculture and contributed to food inflation.

b. Production Shortfalls and Crop Failures

- **Natural Disasters**: Floods, cyclones, or other natural disasters can damage crops, leading to shortages in supply. This can particularly affect perishable products like vegetables, fruits, and milk. Cyclones like Fani (2019) and Amphan (2020) affected crops in Odisha and West Bengal, pushing up the prices of affected food products.

c. Input Costs (Fertilizers, Fuel, and Labor)

- **Increased Cost of Inputs**: Rising prices of inputs such as fertilizers, fuel, and labour can raise the cost of production for farmers, which is then passed on to consumers in the form of higher prices for food products. The price of urea and DAP (Diammonium Phosphate), both key fertilizers, has risen in recent years, increasing the cost of cultivation for many crops.
- **Fuel Prices**: Since farming equipment, transportation, and irrigation rely heavily on fuel, rising fuel prices directly affect food production and distribution costs, thus pushing up food prices. In 2021, global oil prices surged, which directly impacted the cost of transportation and distribution, thus increasing food prices across the country.

d. Supply Chain Disruptions

- **Logistics and Distribution Issues**: Inefficient or disrupted supply chains, including transportation bottlenecks, market access issues, and storage limitations, can prevent food from reaching the market efficiently, leading to scarcity and, thus, higher prices. During the COVID-19 pandemic, nationwide lockdowns disrupted the supply of food products, causing food prices to surge, particularly for perishable goods like fruits and vegetables.

2. Demand-Side Factors

a. Rising Consumer Demand

- **Income Growth and Urbanization**: As the population's income levels rise and urbanization increases, the demand for food (including processed and packaged foods) grows. In periods of higher demand, prices tend to rise if the supply cannot match the pace of demand. Urbanization has led to a change in consumption patterns, with a growing demand for processed foods, dairy products, and meat, all of which can contribute to food price increases when demand outstrips supply.

b. Dietary Changes

- **Shifting Preferences**: With rising incomes, consumers tend to shift from staple grains like rice and wheat to higher-value foods such as meat, dairy, and processed foods, putting pressure on the prices of these products. As the middle class in India expands, there is an increasing demand for animal-based products (milk, meat), which contributes to higher food inflation in these categories.

c. External Demand and Export Boom

- **Global Market Trends**: Strong international demand for agricultural products can push prices upward, especially when the country is a major exporter of certain food items. A surge in demand from countries like China, the Middle East, or Africa can push prices of certain products higher domestically. Rice and wheat, two major Indian exports, have seen price increases due to strong demand from global markets.

3. Policy and Government Factors

a. Minimum Support Price (MSP) and Procurement Policies

- **MSP and Price Support**: The Indian government sets a Minimum Support Price (MSP) for certain crops to ensure farmers receive a fair price. While this system helps farmers, it can also lead to inflation if the MSP is set too high or if the government struggles to maintain stock levels. The government's MSP policy for wheat and rice has at times led to higher prices for these staples, particularly when procurement is high and the supply cannot meet domestic demand.

b. Import and Export Restrictions

- **Export Bans**: At times, the Indian government may impose export restrictions or bans on certain food products to ensure domestic supply and control inflation. However, such measures can cause a shortage in global supply and contribute to price hikes. In 2008 and 2020, India imposed export bans on rice to ensure domestic supply, which led to a surge in global rice prices.
- **Import Tariffs and Duties**: High tariffs and duties on food imports can raise domestic food prices, especially when there is a shortage in local production. In 2020, the government imposed high import duties on vegetable oils and pulses, which caused domestic prices to rise.

c. Agricultural Subsidies

- **Fertilizer Subsidies**: Government subsidies on fertilizers, electricity, and irrigation can impact food prices indirectly. While these subsidies can reduce the cost of production, sudden cuts in subsidies can lead to higher production costs and increased food prices. India's fertilizer subsidy for the year 2020-21 was ₹1.42 lakh crore, highlighting the government's significant financial involvement in controlling input costs in agriculture.

4. External Factors and Global Trends

a. Global Commodity Prices

- **Global Inflation and Price Volatility**: The prices of key agricultural commodities such as oil, wheat, corn, and sugar are heavily influenced by global market dynamics. A rise in international prices can lead to an increase in food prices domestically, especially if India imports a significant share of these products. In 2021-22, rising global food prices due to supply disruptions and labor shortages during the pandemic led to inflation in India's food prices, particularly for edible oils and cereals.

b. International Supply Chain Shocks

- **Geopolitical Tensions and Trade Disruptions**: Wars, trade embargoes, or sanctions on key producers can disrupt global food supply chains and lead to higher prices for food products. India, being a large importer of crude oil and edible oils, is sensitive to such global disruptions. Russia's invasion of Ukraine in 2022 led to a surge in global wheat prices, which impacted India's wheat prices as well, despite being a major producer.

5. Cost-Push Inflation in Agriculture

Cost-push inflation occurs when the cost of production increases and the producers pass on those increased costs to consumers in the form of higher prices. This can be triggered by:

- **Rising fuel prices** (for transportation of food items)
- **Rising labor costs**
- **Increase in raw material costs** for fertilizers, pesticides, and seeds

Food inflation in India is influenced by a complex mix of factors ranging from supply-side constraints (such as monsoon patterns and crop production issues) to demand-side pressures (such as rising consumer demand and changing dietary preferences). Additionally, government policies, global commodity trends, and geopolitical issues play significant roles in shaping food prices. Managing food inflation requires a multi-faceted approach involving agricultural reforms, efficient supply chain management, effective price regulation, and proactive measures to mitigate the impact of external shocks.

Agricultural Price Policy

Agricultural price policy refers to government measures aimed at stabilizing farm prices, ensuring fair income for farmers, and making food affordable for consumers. These policies play a crucial role in maintaining food security, promoting rural development, and balancing supply and demand in the agricultural sector.

Objectives of Agricultural Price Policy

1. **Ensure Fair Prices for Farmers** – Prevent distress sales by guaranteeing a minimum price for crops.
2. **Control Food Inflation** – Protect consumers from excessive price hikes.
3. **Stabilize Agricultural Markets** – Reduce price fluctuations due to seasonal and climatic factors.
4. **Encourage Agricultural Productivity** – Provide price incentives to farmers to invest in better inputs and technology.
5. **Promote Food Security** – Ensure a stable supply of essential food grains.

Components of Agricultural Price Policy

1. Minimum Support Price (MSP)

- Announced by the government before each sowing season.
- Ensures farmers get a guaranteed price for their produce.
- Covers key crops like wheat, rice, pulses, and oilseeds.

- Determined based on factors like production cost, demand-supply, and global prices.

2. Procurement Policy

- Government agencies (like the Food Corporation of India) buy food grains at MSP.
- Helps maintain buffer stock for food security programs.
- Ensures stable market prices and prevents exploitation of farmers.

3. Buffer Stock and Public Distribution System (PDS)

- Government maintains buffer stocks to handle shortages and price fluctuations.
- PDS distributes subsidized food grains to the poor under schemes like the National Food Security Act (NFSA).

4. Price Stabilization Fund (PSF)

- Used to control price volatility of essential commodities.
- Helps prevent sharp price hikes due to supply shortages.

5. Export and Import Controls

- Restrictions on exports to prevent domestic shortages.
- Import duty adjustments to manage supply and protect domestic farmers.

Challenges in Agricultural Price Policy

- **MSP Benefit Limitations** – Many small farmers do not have access to MSP due to lack of procurement infrastructure.
- **Market Price Distortions** – Over-reliance on MSP for select crops (e.g., wheat, rice) leads to imbalances in crop production.
- **Middlemen Exploitation** – Farmers often sell below MSP due to the presence of middlemen in agricultural markets.
- **Climate Change Impact** – Price stability is affected by unpredictable weather and crop failures.

- **Storage and Logistics Issues** – Poor warehousing facilities lead to wastage and inefficiencies in distribution.

Agricultural Price Policy and Food Security

Agricultural Price Policy

The Government of India implements several measures to stabilize agricultural prices and ensure farmers receive fair compensation. A key component is the Minimum Support Price (MSP), which guarantees farmers a predetermined price for their crops. For the 2025 season, the MSP for wheat was increased by 6.6% to ₹2,425 per 100 kg, aiming to encourage higher wheat production and reduce the need for imports.

Food Security:

The National Food Security Act (NFSA) facilitates the distribution of subsidized food grains to over 800 million beneficiaries through the Public Distribution System (PDS). The Department of Food and Public Distribution oversees this initiative, ensuring food grain allocation and distribution.

Industrial Growth

Index of Industrial Production (IIP):

The IIP measures the performance of various industrial sectors. As of December 2024, India's IIP recorded a growth of 3.2%, reflecting positive momentum in industrial activities.

Production-Linked Incentive (PLI) Scheme:

Introduced in 2020, the PLI scheme aims to boost domestic manufacturing and reduce reliance on imports. By September 2024, the scheme attracted over $17 billion in investments, leading to production worth approximately $131.6 billion and generating nearly one million jobs. Notably, India has become the second-largest producer of mobile phones, with exports exceeding $12 billion in the 2023/24 fiscal year.

However, recent reports indicate that the PLI scheme will not be extended beyond its initial sectors due to unmet expectations in certain areas. While sectors like pharmaceuticals and mobile phones experienced significant growth, others, such as steel and solar panels, faced challenges. The government is exploring alternative support methods, including reimbursing investments for setting up plants.

These policies and initiatives highlight India's commitment to enhancing agricultural productivity, ensuring food security, and fostering industrial growth through strategic interventions and incentives.

Industrial Growth Before and After Economic Reforms in India (1991)

India's industrial growth has seen significant transformations, especially after the economic reforms of 1991. The reforms shifted the economy from a state-controlled system to a more market-driven one, resulting in major changes in industrial performance.

Before Economic Reforms (Pre-1991)

(1947–1991)

Features of Industrial Growth (Pre-1991)

1. **License Raj** – Industries needed government approval (licenses) to start, expand, or produce new products.
2. **Public Sector Dominance** – The government controlled key industries like steel, coal, and telecommunications.
3. **Import Substitution Policy** – High import tariffs and restrictions aimed at reducing dependence on foreign goods.
4. **Low Foreign Direct Investment (FDI)** – Strict regulations limited foreign investments and private sector participation.
5. **Inefficiencies & Low Productivity** – Government-owned industries suffered from inefficiency, corruption, and outdated technology.

6. **Limited Competition** – Private sector growth was restricted, reducing competition and innovation.

Growth Rate Before Reforms

- Industrial sector growth rate: 4-5% per year (1960s–1980s).
- Manufacturing sector: Sluggish growth due to inefficiencies.

Challenges:

- Heavy bureaucracy discouraged private investment.
- High production costs and inefficiency in public sector enterprises.
- Limited global integration, leading to slow technological advancement.

After Economic Reforms (Post-1991)

(1991–Present)

The Liberalization, Privatization, and Globalization (LPG) Reforms of 1991, initiated by the government under PM P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh, transformed the industrial sector.

Reforms Introduced:

1. **End of License Raj** – Most industries were freed from licensing requirements, boosting private sector participation.
2. **Privatization of Public Sector Enterprises (PSEs)** – Government reduced its control over industries, allowing private ownership.
3. **Foreign Direct Investment (FDI) Liberalization** – Allowed foreign companies to invest in Indian industries, increasing competition.
4. **Reduction in Import Tariffs & Trade Barriers** – Opened the economy to global trade and investments.
5. **Technological Advancements & Modernization** – Industries upgraded with global technology and better efficiency.

6. **Expansion of IT & Service Sector** – The rise of software exports and technology-driven industries.

Impact on Industrial Growth:

- **Higher Growth Rate** – The industrial sector grew at an average of 7-9% annually post-reforms.
- **Manufacturing Boom** – Production and exports of automobiles, textiles, and electronics increased.
- **Rise in FDI** – India became a global hub for IT, telecom, and automobile industries.
- **Job Creation** – New industries, particularly in the service and manufacturing sectors, generated employment.

Comparison of Industrial Growth: Before vs. After Reforms

Factor	**Before 1991 (Pre-Reform)**	**After 1991 (Post-Reform)**
Growth Rate	4-5% per year	7-9% per year
Government Role	Heavy control (Public Sector)	Privatization & market-driven policies
FDI Inflows	Limited	Increased significantly
Technology & Productivity	Outdated, slow growth	Modernization & efficiency
Global Trade	Restricted (High tariffs)	Open market, increased exports
Private Sector	Limited scope	Major driver of industrial growth

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Current Trends in Industrial Growth (Post-2000s)

- **Make in India (2014):** Encourages domestic manufacturing in sectors like defense, electronics, and automobiles.
- **Production-Linked Incentive (PLI) Scheme (2020):** Offers financial incentives to boost industrial production.
- **Digital & Green Industry Growth:** Rise in technology-driven industries, renewable energy, and electric vehicles.

Dualism in Indian Manufacturing

What is Dualism in Manufacturing

Dualism in Indian manufacturing refers to the coexistence of two distinct segments within the industrial sector:

1. **Large, Modern, Capital-Intensive Firms** – These firms operate with advanced technology, higher productivity, and global integration.
2. **Small, Informal, Labor-Intensive Enterprises** – These rely on traditional methods, have lower productivity, and employ a large workforce with limited technological adoption.

This structural divide creates disparities in productivity, wages, innovation, and market access.

Features of Dualism in Indian Manufacturing

1. Size and Scale Difference

- **Large enterprises** (e.g., Tata, Reliance, Bajaj, Infosys) have economies of scale, automation, and high output.
- **Small enterprises** (Micro, Small, and Medium Enterprises - MSMEs) struggle with limited resources, lower production, and informal operations.

2. Technology Gap

- Large firms use automation, AI, and robotics, improving efficiency.
- MSMEs often rely on manual labour and outdated machinery, reducing productivity.

3. Wage and Employment Disparities

- Organized sector workers receive higher wages, job security, and benefits.

- Unorganized sector workers face low wages, job instability, and poor working conditions.

4. Market and Global Access

- Large firms export, receive foreign investments, and integrate with global supply chains.
- MSMEs struggle to compete internationally due to financial constraints and lack of branding.

Causes of Dualism in Indian Manufacturing

1. **Regulatory Barriers**

- Rigid labour laws discourage small firms from expanding and formalizing.
- High compliance costs favour large corporations that can handle bureaucratic processes.

2. **Credit and Finance Constraints:**

- MSMEs face difficulty accessing loans due to lack of collateral and high-interest rates.
- Large firms secure easier financing through banks and capital markets.

3. **Infrastructure and Logistics Issues:**

- Large firms operate in industrial hubs with better transport and power facilities.
- MSMEs in rural or semi-urban areas struggle with unreliable infrastructure.

4. **Education and Skill Gap:**

- Large firms employ skilled labour with formal training.
- MSMEs depend on semi-skilled or unskilled workers, leading to lower productivity.

5. **Globalization and Trade Policies:**

- Large firms benefit from FDI, free trade agreements (FTAs), and export incentives.
- Small firms lack competitiveness due to low investment in R&D and marketing.

Impact of Dualism on Indian Economy

Positive Impacts:

- **Employment Generation:** MSMEs contribute 45% of industrial employment.
- **Innovation & Competition:** Startups and small businesses drive niche markets and innovations.
- **Economic Resilience:** A mix of large and small firms diversifies the economy.

Negative Impacts:

- **Productivity Loss:** MSMEs contribute 29% of GDP but operate at low efficiency.
- **Income Inequality:** Wage differences between large and small firms **create economic disparity.**
- **Export Competitiveness Issues:** Large firms dominate exports, while small firms struggle to integrate into global supply chains.

Solutions to Reduce Dualism in Indian Manufacturing

1. **MSME Growth & Formalization:**

- Strengthen credit access (Mudra loans, SIDBI support).
- Encourage digitalization and automation in MSMEs.

2. **Skill Development & Education:**

- Expand vocational training and apprenticeships for MSME workers.
- Industry-academia collaboration for technology adoption in small firms.

3. **Infrastructure Development:**

- Improve industrial parks, logistics, and rural connectivity.
- Set up common facility centers for small manufacturers.

4. **Labor Law Reforms:**

- Simplify labour laws to encourage small firms to scale up.
- Provide incentives for job creation in labour-intensive industries.

5. **Technology and Market Access:**

- Promote e-commerce platforms for MSMEs.
- Offer tax incentives for R&D and innovation

Issues in the Performance of Public Sector Enterprises (PSEs) and Privatization in India

Public Sector Enterprises (PSEs) have played a crucial role in India's industrial and economic development. However, many have struggled with inefficiency, financial losses, and bureaucratic hurdles, leading to discussions on privatization as a solution.

Issues in the Performance of Public Sector Enterprises (PSEs)

1. Financial Inefficiency & Losses

- Many PSEs are financially unviable, relying on government bailouts.
- Example: Air India incurred ₹70,000 crore in losses before privatization (2022).
- The debt burden of PSEs affects the government’s fiscal health.

2. Bureaucratic Red Tape & Political Interference

- Decision-making is slow due to excessive government control.
- Political appointments often lead to inefficient leadership.
- Frequent policy changes make long-term planning difficult.

3. Lack of Innovation & Competitiveness

- Low investment in R&D and technology adoption.
- Struggle to compete with the private sector and global firms.
- Example: BSNL lost market share to private telecom players like Jio and Airtel.

4. Overstaffing & Low Productivity

- PSEs have a large workforce but low efficiency.
- Example: Coal India has high employment but lower productivity compared to private mining companies.

5. Corruption & Mismanagement

- Frequent financial scandals and inefficiencies.

- Example: Poor inventory management in PSEs leads to resource wastage.

Privatization in India

Privatization refers to transferring ownership or control of public sector enterprises to the private sector to improve efficiency, profitability, and service quality.

Types of Privatization:

1. **Strategic Disinvestment** – Selling a majority stake in PSEs (e.g., Air India to Tata Group).
2. **Public-Private Partnerships (PPPs)** – Government and private players collaborate (e.g., Delhi Metro).
3. **Asset Monetization** – Leasing or selling non-core assets (e.g., railway stations).

Benefits of Privatization:

- **Efficiency Improvement** – Private management enhances productivity and innovation
- **Reduced Government Burden** – Less need for financial bailouts.
- **Increased Investment** – Private sector attracts capital and technology.
- **Better Services & Quality** – Competitive pressure improves service delivery.

Challenges & Issues in Privatization

1. Social & Employment Concerns

- Job losses due to workforce downsizing.
- Resistance from labour unions and employees.

2. Monopoly Risks & High Prices

- Privatization may create monopolies (e.g., airport privatization led to higher passenger fees).

3. Loss of Public Welfare Goals

- PSEs focus on social welfare (e.g., affordable rail travel).
- Private companies prioritize profit over public service.

4. Valuation & Transparency Issues

- Concerns over underpricing of PSE assets.
- Example: Air India was sold for ₹18,000 crore, much lower than expected.

Privatization Initiatives in India

Year	Key Privatization Reform	Impact
1991	**Liberalization & Disinvestment**	Opened economy, started selling PSE shares
2000s	**Strategic Sales (VSNL, BALCO, Maruti)**	Boosted private investment
2021	**National Monetization Pipeline (NMP)**	₹6 lakh crore plan to lease public assets
2022	**Air India Privatization**	Sold to Tata Group, reducing government losses
2023	**IDBI Bank Sale Plan**	Ongoing sale of government stake in banking sector

Privatization is essential for improving efficiency, but it must be done transparently. The government should retain control over key sectors like defense and railways while privatizing non-core sectors. Strong regulatory frameworks are needed to prevent monopoly and ensure fair pricing.

I 2-Mark Questions

1. What are the main factors determining agricultural growth in India?

2. What is food inflation?

3. What is the role of the Agricultural Price Policy in India?

4. What is the significance of food security in India?

5. How did industrial growth change after economic reforms in 1991?

6. What is dualism in Indian manufacturing?

7. What is privatization?

II 5-Mark Questions

1. Explain the key factors underlying agricultural growth in India.

2. What are the main reasons for food inflation in India?

3. Compare industrial growth before and after economic reforms.

4. What are the major challenges faced by Public Sector Enterprises (PSEs) in India?

III 10-Mark Questions

1. Discuss the performance of the agricultural sector in India and the key factors influencing its growth.

2. Examine the factors underlying food inflation in India and the role of government policies in controlling it.

3. Analyze the impact of industrial reforms on India's manufacturing sector.

4. What is dualism in Indian manufacturing, and what are its implications?

5. Discuss the challenges in the performance of public sector enterprises (PSEs) and the role of privatization.

Unit – 03
Fiscal Developments

Fiscal Developments, Finance, and External Sector Expenditure Trends in Post-Independence India

India's fiscal developments, financial policies, and external sector expenditures have undergone significant transformation since the country gained independence in 1947. The policies, decisions, and strategies implemented in the early decades of India's independence shaped the trajectory of India's economic growth, government spending, fiscal discipline, and its role in the global economy.

1. Fiscal Developments Post-Independence

At the time of independence, India's fiscal situation was challenging. The country inherited a system that was primarily designed for colonial exploitation, and there was an urgent need to reconfigure the fiscal policies to meet the demands of a newly independent, developing nation.

a. Early Fiscal Policy (1947-1960s)

- **Government Expenditure**: In the initial years after independence, the Indian government had to focus on nation-building, which required substantial spending in various sectors such as infrastructure, defense, public services, and social welfare. The government prioritized spending on areas like education, healthcare, and industrialization.
- **Public Sector Investment**: The public sector was a key pillar of the Indian economy, with the government investing heavily in public sector enterprises (PSEs) in strategic sectors like steel, energy, transportation, and mining. This was seen as essential for building a self-reliant economy.
- **Revenue Generation**: Revenue generation was a challenge due to low tax collections, a narrow tax base, and the prevalence of an informal economy. The government relied heavily on taxation, especially indirect taxes like customs duties, excise duties, and sales tax, while trying to expand direct taxes on income and corporate profits.

b. Expansion of Welfare and Infrastructure (1960s-1980s)

- **Social Welfare Spending**: The government's expenditure on social welfare programs (such as education, public health, rural development, and food subsidies) gradually increased, although the results were limited due to challenges in implementation and insufficient funds.
- **Infrastructure Development**: Infrastructure spending was another key area of focus, including the building of roads, railways, power plants, and irrigation systems. Public sector companies like BHEL and NTPC were created to build infrastructure and industries.
- **Fiscal Deficits**: The government's fiscal deficits started to widen, primarily due to large public sector investments and growing subsidies. The fiscal deficit as a percentage of GDP remained high, signaling that the government was spending more than it was earning in revenues, which often required financing through borrowing.

2. Financial Sector Developments

a. Creation of Financial Institutions (1950s-1960s)

- **Reserve Bank of India (RBI)**: The Reserve Bank of India (RBI) continued to serve as the central bank post-independence, managing India's monetary policy, currency, and foreign exchange reserves. In the initial years, the RBI was focused on stabilizing the economy and controlling inflation.
- **Public Sector Banks**: The government began expanding public sector banking in the 1950s and 1960s. The first phase of nationalization of banks occurred in 1969, when the government nationalized 14 major commercial banks. The aim was to make credit available to all sectors of the economy, particularly agriculture, small businesses, and the rural economy.

b. Financial Reforms (1990s-2000s)

- **Liberalization of Financial Markets**: In the early 1990s, India underwent financial sector reforms, which were a part of the broader economic liberalization process. The Indian financial market was gradually liberalized with the introduction of new financial products and services.

- **Stock Market Reforms**: The government reformed the stock market and established the Securities and Exchange Board of India (SEBI) to regulate and oversee financial markets, ensuring better transparency and investor protection.
- **Banking Reforms**: The 1990s saw major reforms in the banking sector. Private sector banks were allowed to enter the market, and non-banking financial companies (NBFCs) emerged as key players in providing financial services. Interest rate controls were relaxed, and measures were taken to encourage financial inclusion.

3. Expenditure Trends in India

a. Trends in Government Expenditure

- **Public Spending**: Over the decades, government expenditure has shifted from primarily investment in infrastructure and industry (in the early years) to more focus on social sector spending, including welfare, subsidies, and rural development programs.
- **Subsidies**: The government implemented various subsidy programs, including subsidies on **food**, **fertilizers**, and **fuel**, to support the poor and marginalized sections of society. While these programs aimed to reduce poverty, they put a strain on government finances, contributing to fiscal deficits.
- **Defense Expenditure**: Defense spending has consistently been a major portion of India's expenditure, due to security concerns and the need to modernize the armed forces. This continued to be a significant expenditure area, especially during periods of conflict (such as the 1962 India-China war and 1965 Indo-Pak war).

b. Social Sector Expenditure (1980s-2000s)

- **Increase in Social Spending**: In the 1980s and 1990s, there was an increase in social sector expenditure, especially in the areas of education, health, and poverty alleviation. However, progress in these areas was slow, partly due to the inefficiency of public administration and the vastness of India's population.
- **Education and Health**: Government spending on education and healthcare was limited in the early decades after independence, but it began to rise as the government sought to improve human development indicators.

c. Fiscal Deficits and Borrowing

- **Rising Fiscal Deficits**: The fiscal deficit (the gap between government spending and revenue) became a critical concern from the 1970s onwards. Public debt increased, and the government resorted to borrowing to finance its deficits, both from domestic and external sources.
- **Challenges of Debt Management**: Over time, India faced challenges in managing its debt levels, leading to a balance of payments crisis in 1991. The government had to borrow from the International Monetary Fund (IMF) to manage its foreign exchange reserves.

4. External Sector and Trade Expenditure Trends

a. Trade and Current Account Deficit (1947-1990s)

- **Dependence on Imports**: India's economy was heavily dependent on imports, particularly for industrial goods, machinery, and oil. This led to a trade deficit, where the value of imports exceeded exports. The current account balance also showed deficits, with India having to rely on external borrowing.
- **Export Promotion**: Efforts were made to promote exports of agricultural products, textiles, and minerals. However, India's export base remained narrow, and the country faced challenges in expanding its exports of manufactured goods.

b. Balance of Payments Crisis (1991)

- **Depletion of Foreign Reserves**: By 1991, India's foreign exchange reserves were rapidly depleting, and the country faced a balance of payments crisis. India had to seek a loan from the International Monetary Fund (IMF) to stabilize its economy.
- **Structural Adjustment and Reforms**: In response to the crisis, India undertook a series of economic reforms starting in 1991 under Finance Minister Manmohan Singh. These reforms included liberalizing trade and industrial policies, reducing import tariffs, and encouraging foreign direct investment (FDI).

c. External Sector Developments (2000s-Present)

- **Increased Foreign Trade**: In the post-liberalization era, India's external sector grew significantly, with both imports and exports increasing. The country saw a substantial rise in information technology (IT) exports, which became one of the primary drivers of growth in the services sector.

- **Foreign Exchange Reserves**: India’s foreign exchange reserves have grown substantially, especially since the 2000s. This helped India better manage external shocks and currency fluctuations.
- **FDI and Capital Inflows**: India’s foreign direct investment (FDI) flows increased significantly, especially in sectors like telecommunications, automobiles, and pharmaceuticals, with the liberalization of the economy in the 1990s and 2000s.

India’s fiscal, financial, and external sector policies have evolved significantly since independence. In the early years, the focus was on building infrastructure, industrializing, and improving welfare through state-led interventions. Over time, however, India faced challenges like rising fiscal deficits, external debt, and a trade imbalance. The balance of payments crisis of 1991 marked a major turning point, leading to significant reforms in the fiscal and external sectors. Post-liberalization, India saw increased foreign trade, a growing services sector, and a more diversified export base. However, fiscal discipline, poverty alleviation, and sustainable growth remain key challenges for India as it continues its development journey.

GST: Rationale and Impact

The Goods and Services Tax (GST) is a landmark indirect tax reform in India, introduced on July 1, 2017, to replace a complex and fragmented tax system. Its main aim is to streamline the taxation process, create a unified national market, and simplify the tax structure for businesses and consumers alike. The introduction of GST was one of the most significant economic reforms since India's independence, aiming to address issues of inefficiency, cascading taxation, and economic fragmentation.

1. Rationale Behind the Introduction of GST

a. Simplification of the Tax Structure

Before GST, India had a multi-layered tax system with central taxes (like excise duty, service tax, customs duty) and state taxes (like VAT, sales tax, octroi, etc.). This created several issues:

- **Cascading Taxes**: Taxes were levied on top of other taxes (also known as tax on tax), leading to an increase in the overall tax burden on goods and services.
- **Complexity and Compliance Issues**: Multiple tax laws at the state and central levels made compliance burdensome for businesses, especially small and medium-sized enterprises (SMEs).

The GST aimed to replace these complex taxes with a single, unified tax that would be levied at each stage of the supply chain, ensuring a seamless credit mechanism.

b. Creation of a Unified National Market

India's federal structure meant that states had significant control over taxation within their borders. This led to regional disparities in taxation, and businesses often faced challenges in selling products across state lines due to tax barriers like state-specific sales taxes and entry taxes. The GST was designed to create a common national market, making it easier for businesses to operate across the country.

c. Reduction in Tax Evasion

The introduction of GST brought a digital and transparent taxation system, which was expected to curb tax evasion. The invoice matching system and input tax credit mechanism helped ensure that businesses only claimed tax credits for taxes actually paid. This would reduce the incentive for tax fraud and encourage businesses to be more transparent.

d. Encouraging 'Make in India'

GST aimed to improve the ease of doing business in India and promote the Make in India initiative by reducing the tax burden on manufacturers. The input tax credit mechanism allowed manufacturers to offset the tax they paid on raw materials, thus making Indian goods more competitive in the global market.

e. Promoting Ease of Doing Business

GST was intended to simplify tax compliance by creating a single tax structure, reducing the need for businesses to navigate multiple tax systems. The GSTN (Goods and Services Tax Network), a digital platform, helped businesses file returns and make payments electronically, further reducing the compliance burden.

2. Structure of GST

GST is a destination-based tax, meaning it is levied on the final consumption of goods and services, not the point of origin. It has a dual structure, which involves both Central GST **(CGST)** and **State GST (SGST)** for transactions within a state and **Integrated GST (IGST)** for inter-state transactions.

- **CGST**: Collected by the Central Government on intra-state transactions.
- **SGST**: Collected by the State Government on intra-state transactions.
- **IGST**: Collected by the Central Government on inter-state transactions, which is later shared with the destination state.

3. Features of GST

- **Four-tier Tax Structure**: GST is categorized into four tax slabs – 5%, 12%, 18%, and 28%. Essential goods, like food and medicines, are taxed at the lowest rates, while luxury goods and services are taxed at higher rates.
- **Input Tax Credit (ITC)**: Businesses can claim tax credits on taxes paid for inputs, which helps reduce the cascading effect of taxes.
- **Single Registration**: Businesses need to register only once for GST and comply with a single, unified system, rather than registering separately in every state.
- **Digitalization**: GST involves the use of technology for filing returns, making payments, and maintaining records. The GSTN portal provides an online platform for businesses to carry out these activities.

4. Impact of GST

a. Economic Impact

- **Boost to Economic Growth**: In the long run, GST is expected to enhance the ease of doing business and boost the overall economic growth. By eliminating barriers to interstate trade, it facilitates the free flow of goods and services across the country, improving productivity and efficiency. Additionally, businesses benefit from reduced operational costs due to the simplification of the tax system.

- **Increase in Tax Base**: GST has broadened the tax base by bringing more businesses into the tax net. The compliance system, which is automated and transparent, has encouraged a larger number of small businesses to register for GST.
- **Improved Revenue Collection**: In the initial phase, there were concerns about potential revenue loss for both central and state governments. However, over time, as businesses adapted to the new system, GST collection improved. Indirect tax collections showed a significant increase, and the system has led to a more efficient tax collection mechanism.
- **Reduction in Cascading Taxes**: By allowing the input tax credit, GST eliminated the problem of cascading taxes, leading to a reduction in the overall cost of production. This had a favourable impact on the pricing of goods and services.

b. Business Impact

- **Reduction in Compliance Costs**: The single tax structure and online filing system reduced compliance costs for businesses. SMEs, in particular, benefited from the simplified filing process and the availability of ITC.
- **Improved Transparency**: The digitalization of the tax system has enhanced transparency, making it more difficult for businesses to evade taxes. The GST return filing system has made it harder to conceal revenue, thus reducing the informal economy.
- **Cost Competitiveness**: The elimination of state-level taxes and reduction in cascading taxes led to lower production and operational costs, which made businesses more competitive both domestically and internationally.
- **Impact on SMEs**: While large businesses with sophisticated systems could easily adapt to GST, SMEs faced challenges in terms of compliance and registration costs. However, the introduction of a composition scheme provided relief for smaller businesses by reducing their compliance burden and tax rates.

c. Consumer Impact

- **Price Changes**: One of the most noticeable impacts of GST was on the price of goods and services. While the GST on many essential goods (like food and medicines) was set at lower rates, several consumer goods, including luxury items and non-essential goods, faced higher tax rates. The impact of GST on consumer prices varied, but the overall trend was a slight reduction in the prices of many goods and services due to the elimination of cascading taxes.

- **Improved Product Availability**: GST facilitated the free movement of goods across the country, which improved the availability and distribution of products. This benefitted consumers by improving the reach and accessibility of goods and services.

d. State Government Impact

- **Revenue Sharing**: GST has led to a more equitable revenue-sharing model between central and state governments. State governments no longer rely heavily on state-specific taxes like sales tax and octroi, and they now receive a portion of the IGST collected on inter-state transactions.
- **Fiscal Devolution**: The GST Council, which includes representatives from both the central and state governments, plays a key role in deciding the rates and policies. This ensures cooperation and consensus between the two levels of government in the taxation system.

e. Challenges

- **Implementation Issues**: One of the biggest challenges of GST implementation was the transition from the old tax regime to the new system. There were initial teething problems, such as delays in the IT infrastructure, confusion over the rate structure, and difficulties faced by businesses, particularly SMEs.
- **Complexity in Rate Structure**: While GST was intended to simplify the tax system, the multiple tax slabs (5%, 12%, 18%, and 28%) have made it somewhat complex. This complexity continues to pose challenges for businesses in terms of compliance, categorization of goods, and filing returns.
- **Impact on Small Businesses**: Small businesses with lower turnover faced challenges in adapting to the new system, especially in the initial phase. However, the composition scheme helped alleviate some of these issues by providing a simpler tax structure for businesses with a turnover below a certain threshold.

The introduction of GST in India was a significant step toward creating a more efficient and unified tax system. It was designed to streamline tax procedures, eliminate the cascading effect of taxes, promote a national market, and foster economic growth. While it has had a generally positive impact on businesses, the economy, and consumers, challenges remain in terms of compliance, rate structure complexity, and adapting to the new system. Over time, as businesses adjust and the system matures, GST is expected to continue fostering economic growth, increasing tax compliance, and simplifying the business environment in India.

Evolution of the Financial Sector in Post-Liberalization Period

The post-liberalization period in India, which began in the early 1990s, marked a significant transformation of the country's financial sector. Prior to liberalization, India's financial system was characterized by heavy state control, high levels of regulation, and a focus on protectionism. However, the economic liberalization of 1991 and subsequent reforms led to a profound shift in India's financial landscape. The reforms opened up the economy, improved financial market efficiency, and facilitated integration with global financial markets.

Here's an overview of the key developments and changes in the financial sector in India post-liberalization:

1. Financial Sector Reforms (1991-2000s)

a. The 1991 Economic Reforms

The **1991 economic crisis** forced India to adopt a series of economic and financial reforms aimed at stabilizing the economy and promoting growth. The major financial sector reforms were focused on:

- **Deregulation of Interest Rates**: Before liberalization, interest rates were heavily controlled by the government and central bank (RBI). The government gradually deregulated interest rates, especially for bank deposits and lending, to encourage market-driven financial activity.
- **Opening of the Banking Sector**: The banking sector, previously dominated by state-owned banks, began to see the entry of private sector players. The Reserve Bank of India (RBI**)** allowed the establishment of new private banks, encouraging greater competition and efficiency in the banking industry.

- **Capital Market Reforms**: The Securities and Exchange Board of India (SEBI) was empowered with greater autonomy and regulatory powers to improve the transparency, efficiency, and fairness of the capital markets. The National Stock Exchange (NSE) was established in 1992, creating a modern and efficient platform for securities trading.

b. Creation of a Regulatory Framework

- **SEBI's Strengthening**: SEBI became more proactive in regulating capital markets. It took significant steps to regulate insider trading, ensure transparency, and enforce disclosure norms. These moves led to increased investor confidence in the Indian stock markets.
- **Opening of the Insurance Sector**: The Insurance Regulatory and Development Authority of India (IRDAI) was set up in 1999, and the insurance sector was opened to private players and foreign investment. This led to a surge in private insurance companies entering the market and improving the depth and reach of the insurance sector.
- **Non-Banking Financial Companies (NBFCs)**: NBFCs gained prominence after liberalization. They played a vital role in providing credit to sectors that were under-served by traditional banks, such as small and medium-sized enterprises (SMEs) and the rural economy.

c. Banking Sector Reforms

- **Nationalization and Consolidation**: While the nationalization of banks in the 1970s had aimed to provide financial inclusion and make credit available for all, the post-liberalization period saw a rethinking of this model. The government started the process of merging and consolidating public sector banks (PSBs) to create larger and more efficient institutions.
- **Entry of Private Banks**: The liberalization period witnessed the entry of private sector banks such as HDFC Bank, ICICI Bank, and Axis Bank. These banks brought modern banking practices, customer-centric services, and more competitive banking products.
- **Banking Sector Modernization**: Technological advancements such as ATM networks, electronic funds transfer, and internet banking were adopted. The RBI also introduced the Prudential Norms, which included capital adequacy ratios, non-performing asset (NPA) norms, and risk management guidelines for banks.

2. Growth of Capital Markets

The post-liberalization period saw significant growth in India's capital markets.

a. Stock Markets and Trading Platforms

- **Introduction of the NSE**: The National Stock Exchange (NSE), which began operations in 1994, modernized the Indian stock market. It introduced electronic trading, making transactions more transparent, faster, and efficient, replacing the older open-outcry systems used in the Bombay Stock Exchange (BSE).
- **Increased Foreign Investment**: The liberalization reforms included foreign direct investment (FDI) and foreign institutional investor (FII) policies that encouraged foreign investments into Indian stocks. The opening up of the market to foreign investors led to increased liquidity and a surge in stock market activity.
- **Derivatives Market**: The introduction of derivative products, such as futures and options, provided more avenues for risk management and speculation in the financial markets.
- **Primary Market Developments**: The primary market saw a huge boom in initial public offerings (IPOs) as more companies sought to raise capital by going public. Easier regulations and better market access made it easier for companies to raise funds.

b. Regulatory Framework for Capital Markets

- **SEBI's Role**: SEBI took measures to protect the interests of investors by enforcing strict disclosure norms, regulating IPOs, and ensuring that market operations were transparent. The introduction of the Dematerialized (Demat) System allowed investors to hold shares electronically, reducing the risks associated with physical certificates.
- **Financial Disclosures**: There was a significant push towards greater corporate governance and transparency in the financial markets. Companies were mandated to disclose financial data in a more standardized and transparent manner, improving investor confidence.

3. Financial Inclusion and Access to Credit

a. Expansion of Banking Services

Post-liberalization, one of the key focus areas of the financial sector reforms was financial inclusion, ensuring that banking services reached the underserved and unbanked sections of the population.

- **Microfinance Institutions (MFIs)**: MFIs and self-help groups (SHGs) played an important role in providing credit to the rural poor, especially women and small entrepreneurs.
- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**: Launched in 2014, this scheme sought to provide bank accounts to every household in India, ensuring access to basic banking services and direct benefits transfer.
- **Expansion of ATMs and Branches**: Public and private sector banks expanded their networks to increase their reach to rural and semi-urban areas. The increase in ATM coverage, mobile banking, and online banking platforms helped make financial services more accessible.

b. Focus on Credit to SMEs and Housing

- **SME Financing**: The development of the Micro, Small, and Medium Enterprises (MSME) sector became a key area of focus. Financial institutions began offering tailored products like MSME loans, working capital financing, and trade financing.
- **Affordable Housing**: The housing finance sector grew significantly, with institutions like HDFC and LIC Housing Finance offering more affordable loan options to the growing middle class. Government-backed initiatives such as Pradhan Mantri Awas Yojana (PMAY) further promoted affordable housing.

4. Financial Market Deepening and Diversification

a. Development of New Financial Products

- **Mutual Funds**: The mutual fund industry expanded rapidly after liberalization, with investors gaining access to diversified portfolios. The introduction of Systematic Investment Plans (SIPs) made investing in mutual funds easier for retail investors.
- Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs) emerged as new investment vehicles, allowing greater participation in the market for institutional and retail investors alike.

- **Hedge Funds and Private Equity**: The liberalization era saw the development of alternative investment vehicles, including hedge funds, private equity, and venture capital, which targeted high-growth sectors like technology and infrastructure.

b. Financial Products for Retail Investors

The financial sector also saw a shift toward retail investors. There was an emphasis on:

- **Insurance products**: The liberalization of the insurance sector led to more product offerings, such as life and general insurance, to cater to the needs of the growing middle class.
- **Pension and Retirement Products**: Products like Public Provident Fund (PPF), Employee Provident Fund (EPF), and National Pension System (NPS) were reformed and expanded, providing retail investors with more long-term investment avenues.

5. Regulatory Developments and the Role of RBI

- **Prudential Norms**: The Reserve Bank of India (RBI) introduced prudential norms for credit and risk management, including norms for capital adequacy and asset classification. This was intended to strengthen the resilience of the financial system and reduce the risk of defaults.
- **Banking Sector Consolidation**: The post-liberalization period also saw a gradual consolidation of the banking sector. In recent years, the Indian government has actively pursued the merger of public sector banks to create stronger and more viable financial institutions.
- **Digital Payment Systems**: The RBI also pushed for greater use of digital payment systems, promoting initiatives like National Payments Corporation of India (NPCI) and platforms like UPI (Unified Payments Interface) to increase financial inclusion and ease of transactions.

6. Challenges and the Way Forward

- **Non-Performing Assets (NPAs)**: The rise of NPAs, particularly in public sector banks, remained a challenge for the financial system. The RBI's Asset Quality Review (AQR) and Insolvency and Bankruptcy Code (IBC) were steps to address this issue.

- **Financial Literacy**: While the financial sector has grown, financial literacy remains an area of concern, especially in rural areas. Efforts need to be made to improve understanding of financial products and services.
- **Technological Advancements**: The increasing role of FinTech and blockchain technology poses new opportunities and challenges for the sector. Digital banking and mobile payment systems will play a crucial role in expanding financial inclusion and increasing efficiency.

The evolution of India's financial sector post-liberalization has been marked by greater competition, financial inclusion, innovation in financial products, and better regulatory frameworks. The reforms have contributed to India's integration into the global financial system, improved access to capital, and fostered a more resilient financial system. However, challenges such as NPAs, financial literacy, and the need for further technological advancements remain. Moving forward, the continued focus on innovation, regulation, and inclusion will be crucial for sustaining growth in the financial sector.

External Sector Performance: Emergence of India as a Major Exporter in Services & Performance of the Manufacturing Sector

1. Emergence of India as a Major Exporter in Services

India has emerged as a global powerhouse in services exports, especially in IT and business process outsourcing (BPO). The growth of the service sector has been driven by skilled labor, technological advancements, cost competitiveness, and supportive government policies.

Factors Contributing to India's Services Export Growth

1. **IT & IT-Enabled Services (ITES) Boom:**

- India is a global leader in IT services, with companies like TCS, Infosys, and Wipro catering to international clients.
- The availability of a large, skilled workforce and lower operational costs make India a preferred outsourcing destination.
- Software exports contribute significantly to India's foreign exchange earnings.

2. **BPO & KPO (Knowledge Process Outsourcing):**

- India provides back-office and customer support services for global firms.
- The shift to higher-value services like analytics and research has increased export revenues.

3. **Financial and Legal Services:**

- India is a growing hub for legal process outsourcing (LPO) and financial analytics.
- Many global banks and consulting firms operate their support centers from India.

4. **Healthcare & Pharmaceutical Services:**

- Medical tourism has grown significantly, with India offering high-quality healthcare at lower costs.
- Pharmaceutical exports, including generic drugs, are among the top contributors to service exports.

5. **Education & Skill Development Services:**

- Online education platforms and coaching services attract international students.

6. **Government Support & Trade Agreements:**

- Initiatives like the Service Exports from India Scheme (SEIS) promote service exports.
- Trade agreements with countries like the US, UK, and European nations boost India's service exports.

2. Performance of India's Manufacturing Sector

The manufacturing sector plays a crucial role in India's external trade, contributing to 15-16% of GDP and generating employment. However, its performance has been mixed, with challenges in global competitiveness and domestic infrastructure.

Key Trends & Performance:

1. **Growth in Key Industries:**

- **Automobile Industry:** India is a major exporter of two-wheelers, cars, and auto components.

- **Textile & Apparel:** India is one of the largest exporters of cotton and garments, competing with China and Bangladesh.
- **Electronics & Mobile Manufacturing:** Companies like Apple and Samsung have set up manufacturing bases, boosting exports.
- **Pharmaceuticals:** India is the world's largest supplier of generic drugs.

2. **Make in India & PLI Schemes:**

- The **Production-Linked Incentive (PLI) scheme** has attracted investments in electronics, semiconductors, and pharmaceuticals.
- **Make in India** aims to increase manufacturing's share in GDP to 25%.

3. **Challenges in Manufacturing Exports:**

- **Infrastructure & Logistics Bottlenecks:** High transportation costs and inefficiencies impact competitiveness.
- **Dependence on Imports for Raw Materials:** Many industries rely on imports for essential components.
- **Labor Laws & Compliance Issues:** Rigid labour laws and compliance costs affect ease of doing business.

4. **Future Outlook:**

- Increasing FDI inflows into manufacturing.
- Growth in green energy manufacturing (solar panels, EVs, batteries).
- Expansion of global supply chain integration with India as a manufacturing hub.

While India's service sector continues to thrive globally, the manufacturing sector is improving with government initiatives and foreign investments. Strengthening infrastructure, reducing dependency on imports, and enhancing skill development will be crucial for long-term export growth in both sectors.

I 2-Mark Questions

1. What are the major trends in government expenditure in India?

2. What is the rationale behind implementing GST in India?

3. How has India's financial sector evolved after liberalization?

4. What is India's role in global service exports?

5. How has the manufacturing sector performed in India's external trade?

II 5-Mark Questions

1. Explain the impact of GST on the Indian economy.

2. How did India's financial sector transform after liberalization?

3. Discuss India's emergence as a major services exporter.

4. What are the key challenges faced by India's manufacturing sector?

III 10-Mark Questions

1. Analyze the expenditure trends of the Indian government in recent years.

2. Critically examine the impact of GST on different sectors of the economy.

3. Discuss the evolution of India's financial sector after the 1991 reforms.

4. Evaluate India's external sector performance in services and manufacturing exports.

Unit – 04

Poverty and Inequality

Poverty and Inequality in India: Measuring Poverty

1. Understanding Poverty and Inequality in India

Poverty in India refers to the condition where individuals lack the financial resources to meet basic needs such as food, clothing, and shelter. Inequality refers to the unequal distribution of income and wealth across different sections of society. Measuring poverty accurately is crucial for policymaking and targeting welfare programs effectively.

2. Methods of Measuring Poverty in India

Several methods have been used to measure poverty in India, including consumption-based and income-based approaches.

A. Poverty Line Estimation by Government Committees

The Indian government has relied on various expert committees to define the poverty line based on consumption expenditure.

1. **Tendulkar Committee (2009)** : Suggested shifting from calorie-based norms to monthly per capita expenditure. Used implicit price adjustments to account for cost-of-living differences across urban and rural areas. Estimated poverty line for 2011-12 at ₹816 per capita per month for rural areas and ₹1,000 for urban areas. Poverty ratio (2011-12): 21.9% of the population below the poverty line.

2. **Rangarajan Committee (2014)**: Used a broader definition, considering food, clothing, education, health, and rent. Suggested a higher poverty line of ₹972 per capita per month (rural) and ₹1,407 (urban). Estimated poverty at 29.5% in 2011-12 (higher than Tendulkar's estimate).

3. **NITI Aayog's Multidimensional Approach** : India now uses Multidimensional Poverty Index (MPI), which considers health, education, and standard of living. Based on Global MPI methodology, published by UNDP and Oxford Poverty & Human Development Initiative (OPHI).

B. Multidimensional Poverty Index (MPI)

1. **Health Indicators:** Child mortality, nutrition.
2. **Education Indicators:** Years of schooling, school attendance.
3. **Standard of Living:** Electricity, drinking water, sanitation, housing, assets.

- As per the **NITI Aayog MPI Report (2023)**, poverty in India declined significantly, with 13.5 crore people moving out of poverty between 2015-16 and 2019-21.

C. World Bank's International Poverty Line

- **Extreme Poverty:** Living below $2.15 per day (PPP - Purchasing Power Parity).
- **Lower Middle-Income Country Poverty Line:** $3.65 per day.
- **India's Poverty Rate (World Bank, 2023):** Less than 10% under extreme poverty.

3. Income and Wealth Inequality in India

- **Oxfam Report (2023):** The richest 1% hold over 40% of India’s wealth, while the bottom 50% share only 3%.
- **Urban-Rural Divide:** Urban poverty is lower, while rural poverty is more severe.
- **Caste and Gender Disparities:** Scheduled Castes (SCs), Scheduled Tribes (STs), and women are disproportionately affected.

4. Government Initiatives to Reduce Poverty

- **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):** Guarantees 100 days of work for rural households.
- **Pradhan Mantri Garib Kalyan Yojana (PMGKY):** Provides free food grains to poor families.
- **National Food Security Act (NFSA):** Ensures subsidized food for low-income families.
- **Aspirational Districts Programme:** Focuses on improving indicators in underdeveloped regions.

India has made significant progress in reducing poverty, but challenges remain in tackling income inequality, regional disparities, and multidimensional deprivation. A combination of economic growth, social policies, and targeted welfare programs is essential to ensure sustainable poverty reduction.

Selection of Poverty Lines, Poverty in Pre and Post-Liberalization Periods, and Impact of Growth on Poverty

1. Selection of Poverty Lines in India

India has used different methodologies to define and measure poverty over the years. The poverty line is generally based on **minimum consumption expenditure** required to meet basic needs, including food, clothing, and shelter.

A. Major Committees and Their Poverty Line Estimations

Committee	**Methodology**	**Poverty Line Estimate (2011-12)**	**Poverty Rate (2011-12)**
Alagh Committee (1979)	Calorie-based (2,400 kcal rural, 2,100 kcal urban)	Based on per capita monthly consumption	No direct estimate
Lakdawala Committee (1993)	Calorie-based, updated with CPI	₹816 (rural), ₹1,000 (urban)	21.9%
Tendulkar Committee (2009)	Shift from calorie-based to consumption-based	₹816 (rural), ₹1,000 (urban)	21.9%
Rangarajan Committee (2014)	Included food + non-food essentials	₹972 (rural), ₹1,407 (urban)	29.5%
Multidimensional Poverty Index (MPI) - NITI Aayog (2021)	Health, education, living standards	No income threshold, measures deprivation	13.5 crore exited poverty (2015-21)

- **Traditional Methods** (Alagh, Lakdawala, Tendulkar) focused on expenditure required to meet basic needs.
- **Newer Approaches** (Rangarajan, MPI) include broader aspects like education, health, and quality of life.

2. Poverty in Pre and Post-Liberalization Periods

A. Pre-Liberalization Period (Before 1991)

India followed a socialist economic model with government control over industries and limited private sector participation.

Characteristics of Poverty in Pre-1991 India:

1. **High Poverty Levels**

- **1973-74:** 54.9% of the population was below the poverty line.
- **1983:** Declined to 44.5%, but still remained high.

2. **Rural and Urban Poverty**

- Rural poverty was severe due to low agricultural productivity.
- Urban poverty existed due to limited industrial growth and job creation.

3. **Slow Economic Growth (Hindu Rate of Growth)**

- GDP growth rate was 3-4% per year, not enough to reduce poverty significantly.
- Population growth outpaced economic expansion.

4. **Government Initiatives to Reduce Poverty**

- Green Revolution (1960s-70s) increased agricultural output, reducing rural poverty.
- Public Distribution System (PDS), Integrated Rural Development Programme (IRDP), and Minimum Wage Policies targeted poverty but had limited success.

B. Post-Liberalization Period (After 1991)

Economic reforms in 1991 led to globalization, privatization, and liberalization (LPG), accelerating economic growth and reducing poverty.

Features of Post-1991 Poverty Reduction:

1. **Declining Poverty Rates**

- **1993-94:** 45.3% below poverty line.
- **2011-12:** 21.9% (Tendulkar) or 29.5% (Rangarajan).
- **2019-21 (MPI report):** 13.5 crore people exited poverty.

2. **Structural Changes in the Economy**

- Growth in IT, telecom, manufacturing, and services created jobs and increased incomes.
- Rural poverty reduced due to employment schemes (MGNREGA) and agricultural reforms.

3. **Urban vs Rural Poverty**

- Urban poverty decreased faster due to industrialization and foreign investments.
- Rural poverty persisted, requiring government intervention.

4. **Government Welfare Programs**

- **MGNREGA (2005):** Guaranteed rural employment.
- **National Food Security Act (NFSA, 2013):** Subsidized food for low-income families.
- **Pradhan Mantri Garib Kalyan Yojana (PMGKY):** COVID-19 relief, free food grains.

3. Impact of Economic Growth on Poverty Reduction

Economic growth is **one of the most important drivers** of poverty reduction, but its impact varies based on policies and wealth distribution.

A. Positive Impacts of Growth on Poverty Reduction

1. **Higher Incomes and Employment**

- Rapid economic growth (post-1991) increased per capita income, lifting millions out of poverty.
- Service sector boom (IT, finance, BPO) created high-paying jobs.

2. **Better Social Indicators**

- Growth increased government revenue, enabling investments in education, healthcare, and infrastructure.
- Life expectancy, literacy rates, and child mortality improved significantly.

3. **Urbanization and Industrialization**

- Cities became hubs of employment and entrepreneurship, reducing urban poverty.
- Manufacturing expansion (PLI schemes, Make in India) created new opportunities.

4. **Foreign Investment and Trade**

- FDI inflows in telecom, technology, and pharmaceuticals increased productivity and wages.
- Export-oriented industries (software, textiles, pharmaceuticals) boosted incomes.

B. Limitations & Challenges of Growth in Reducing Poverty

1. **Unequal Growth (Rising Inequality)**

- Benefits of economic growth did not reach all sections equally.
- Richest 1% own over 40% of India's wealth (Oxfam 2023 report).

2. **Jobless Growth**

- GDP growth was high, but formal job creation was limited.
- Many workers remain in low-income informal jobs without social security.

3. **Regional Disparities**

- Southern and western states (Tamil Nadu, Maharashtra, Gujarat) saw faster poverty reduction.
- Bihar, Uttar Pradesh, Odisha still have high poverty rates.

4. **Persistent Rural Poverty**

- Agriculture's slow growth and landlessness keep rural incomes low.
- Farmers remain vulnerable to price fluctuations and climate change.

5. **Impact of Global Economic Crises**

- The COVID-19 pandemic led to job losses and increased vulnerability among poor populations.
- Inflation and food price rise eroded the purchasing power of low-income households.

Economic growth is necessary but not sufficient alone to reduce poverty. A balanced approach combining high growth with equitable wealth distribution, strong social policies, and employment generation is crucial for long-term poverty eradication in India.

PDS vs. Cash Transfers, Feasibility of Universal Basic Income in India

1. Public Distribution System (PDS) vs. Cash Transfers

The debate between Public Distribution System (PDS) and Direct Cash Transfers (DCT) is significant in India's poverty alleviation strategy.

A. Public Distribution System (PDS)

PDS is a government-run food distribution program that provides subsidized food grains and essential commodities to the poor through ration shops (Fair Price Shops).

Advantages of PDS

1. **Food Security:** Ensures direct access to food, reducing hunger and malnutrition.
2. **Targeted Support:** Benefits the poorest households, especially in rural areas.
3. **Price Stability:** Protects beneficiaries from food price fluctuations.
4. **Women and Children Benefited:** Food access improves nutrition, especially among children and pregnant women.

Challenges of PDS

1. **Leakages and Corruption:** Middlemen divert subsidized food to the open market.
2. **Exclusion Errors:** Many eligible households are left out due to poor implementation.
3. **High Operational Costs:** Storage, transportation, and distribution costs are high.
4. **Poor Quality of Food:** Ration shop food quality is often inferior.

B. Direct Cash Transfers (DCT)

Cash transfers involve sending financial assistance directly to beneficiaries' bank accounts, eliminating intermediaries. Example: PM-KISAN (for farmers), Jan Dhan Yojana (financial inclusion), DBT (subsidy transfer).

Advantages of Cash Transfers

1. **Eliminates Middlemen:** Reduces corruption and leakage.
2. **Choice & Flexibility:** Beneficiaries can decide how to spend their money.
3. **Efficient Delivery:** Faster and more transparent transactions through Aadhaar-linked bank accounts.
4. **Boosts Local Economy:** Increases purchasing power and market demand.

Challenges of Cash Transfers

1. **Inflation Risk:** If food supply remains low, cash transfers may lead to price inflation.
2. **Misuse of Funds:** Households may not prioritize spending on essential items.
3. **Financial Exclusion:** Many poor households still lack access to banking infrastructure.
4. **Market Dependency:** Rural areas with weak markets may not have sufficient food supplies for beneficiaries to buy.

C. Which is Better? PDS or Cash Transfers?

- PDS is better for food security in rural areas with poor market access.
- Cash Transfers are better in urban areas with well-functioning markets.
- A hybrid model (like Odisha's grain and cash scheme) may work best, balancing food security with financial empowerment.

2. Feasibility of Universal Basic Income (UBI) in India

Universal Basic Income (UBI) is a policy where every citizen receives a fixed amount of money from the government, regardless of employment status.

A. Potential Benefits of UBI in India

1. **Poverty Reduction:** Direct financial support can uplift millions from extreme poverty.
2. **Administrative Simplicity:** Eliminates bureaucratic inefficiencies in existing welfare schemes.
3. **Empowers People:** Provides financial independence, especially to women.

4. **Boosts Rural Economy:** Increases spending power in underdeveloped regions.
5. **Supports Informal Workers:** Millions in unorganized sectors benefit from a steady income.

B. Challenges of Implementing UBI in India

1. **High Fiscal Cost:**

- Providing ₹1,000 per month to 1.4 billion people would require ₹16.8 lakh crore annually (~8% of GDP).
- It could require cutting existing welfare schemes to fund UBI.
- **Inflation Risks:** Increasing disposable income without matching supply may cause price inflation.
- **Work Disincentive:** Critics argue UBI might reduce motivation to work, affecting labor productivity.
- **Targeting Issues:** If UBI is universal, the rich will also receive benefits, making it inefficient. Targeted Basic Income (TBI) for poor households may be a more practical approach.

C. Alternative to Full UBI: Targeted Basic Income

- **Example: NYAY Scheme (Congress Proposal, 2019)**
- ₹6,000 per month for the poorest 20% of families.
- More feasible than universal UBI.
- **State-Level Experiments:**
- **Sikkim (Proposed UBI Pilot Project)**—considered feasibility but did not implement.
- **Madhya Pradesh Tribal UBI (Pilot Project)**—showed positive impacts on nutrition and schooling.

Inequality in India: Pre and Post-Liberalization Periods

A. Inequality in the Pre-Liberalization Period (Before 1991)

1. **Moderate Income Inequality:**

- The License Raj system restricted private wealth accumulation.
- Government-led job creation maintained low wage disparities.

2. **High Rural-Urban Divide:**

- Agriculture was stagnant, while urban industrial centers grew.
- Rural poverty remained over 50% in the 1970s.

3. **Caste and Gender Inequality:**

- Dalits, Adivasis, and women had limited access to education and jobs.

4. **Government Redistribution Policies:**

- Land reforms, food subsidies, and employment programs aimed at reducing inequality.

B. Inequality in the Post-Liberalization Period (After 1991)

1. **Rising Income Inequality:**

- Economic growth benefited the rich more than the poor.
- Top 1% controlled 40% of wealth (Oxfam 2023 report).

2. **Growth of the Middle Class & Billionaires:**

- IT, finance, and telecom industries created a new rich elite.
- Meanwhile, wages in informal jobs stagnated.

3. **Regional Disparities Widened:**

- Western and southern states (Maharashtra, Karnataka, Tamil Nadu) saw higher growth, while Bihar, UP, Odisha lagged.

4. **Caste & Gender Disparities Persist:**

- SC/STs and women remain underrepresented in high-paying jobs.
- Female labour force participation dropped from 30% (1990s) to 19% (2022).

C. Key Inequality Indicators: Pre vs. Post-Liberalization

Indicator	**Pre-1991**	**Post-1991**
Gini Coefficient (Income Inequality Measure)	~0.32	~0.48 (higher inequality)
Wealth of Top 1%	~20% of total wealth	~40% of total wealth
Rural-Urban Divide	Moderate	Widened significantly
Women's Labor Participation	~30%	Dropped to 19%

Economic growth helped reduce absolute poverty but increased inequality. UBI is a potential solution but needs to be targeted. A balanced approach (progressive taxation, better welfare policies, and job creation) is needed to bridge the gap.

II 2-Mark Questions

1. What is the current official poverty line in India?

2. How does the World Bank measure poverty in India?

3. What is the Multidimensional Poverty Index (MPI)?

4. Define income inequality.

5. What is the Public Distribution System (PDS) in India?

II 5-Mark Questions

1. Explain the methodology used by the Tendulkar Committee for measuring poverty in India.

2. Discuss the impact of economic liberalization on poverty levels in India.

3. Compare the Public Distribution System (PDS) with cash transfer schemes in addressing poverty.

4. What are the main factors contributing to income inequality in post-liberalization India?

5. Assess the feasibility of implementing a Universal Basic Income (UBI) in India.

III 10-Mark Questions

1. Analyze the trends in poverty reduction in India before and after economic liberalization.

2. Evaluate the effectiveness of the Public Distribution System (PDS) versus cash transfers in alleviating poverty in India.

3. Discuss the changes in income inequality in India during the pre- and post-liberalization periods.

4. Critically assess the feasibility and potential impact of implementing a Universal Basic Income (UBI) in India.

Unit – 05

Social Sector

Gender Gap in India and Trends in Female Labour Force Participation Rates

Gender inequality remains a major social issue in India, affecting economic participation, wages, education, and political representation. One key indicator of this inequality is the Female Labour Force Participation Rate (FLFPR), which has seen a declining trend despite economic growth.

Gender Gap in India

A. Economic Inequality

1. **Low Female Labour Force Participation (FLFP)**

- FLFPR in India was 30% in 1990 but declined to 19% in 2022 (World Bank).
- India has one of the lowest FLFPRs among G20 countries.

2. **Wage Gap**

- Women earn 18-20% less than men for the same work (ILO Report).
- Informal sector jobs (domestic work, agriculture) dominate female employment, with low wages and no job security.

3. **Glass Ceiling & Underrepresentation**

- Women occupy only 18% of senior management positions in Indian companies.
- Only 15% of STEM (Science, Technology, Engineering, Mathematics) graduates in India are women.

B. Education & Skill Development Gap

1. **Female Literacy Rate Lower than Male Literacy**

- Female literacy rate: 70% (compared to 84% for males, Census 2011).
- In rural areas, the gap is wider due to socio-cultural norms.

2. **Dropout Rates among Girls**

- Many girls drop out after primary or secondary school due to early marriages, lack of sanitation in schools, and safety concerns.

3. **Lack of Skill Development**

- Women have limited access to vocational training programs, leading to fewer job opportunities.

C. Social & Cultural Barriers

1. **Patriarchal Norms**

- Women are often expected to prioritize household work over careers.
- Many families discourage women from working in male-dominated industries.

2. **Early Marriage & Domestic Responsibilities**

- 27% of women in India are married before the legal age of 18 (NFHS-5).
- Women spend 5-6 hours daily on unpaid domestic work, compared to less than 1 hour by men.

3. **Workplace Harassment & Safety Concerns**

- Sexual harassment at workplaces discourages female employment.
- Lack of safe transportation and workplace safety affects women’s mobility.

3. Trends in Female Labour Force Participation in India

A. Historical Trends (1990-Present)

Year	Female Labour Force Participation Rate (FLFPR)
1990	~30%
2000	~27%

Year	Female Labour Force Participation Rate (FLFPR)
2010	~24%
2020	~20%
2022	~19%

- FLFPR declined from ~30% (1990) to ~19% (2022) despite economic growth.
- Agricultural job losses and lack of urban employment opportunities contributed to this decline.

B. Reasons for Declining FLFPR

1. **Agrarian Crisis & Urban Job Shortage**

- Women lost jobs as agriculture mechanized.
- Formal sector jobs failed to absorb women from rural areas.

2. **Social Pressures & Family Responsibilities**

- Marriage and child-rearing responsibilities force many women to quit jobs.

3. **Lack of Flexible Work Opportunities**
    - Women often need part-time work options, which are scarce.
4. **Safety Issues & Workplace Harassment**
    - Fear of harassment in public spaces discourages women from commuting for work.

C. Comparison with Other Countries

Country	Female Labour Force Participation Rate (2022)
India	19%
China	61%
USA	56%
Bangladesh	36%
Sri Lanka	34%

- India's **FLFPR is much lower** than that of other major economies.

4. Government Initiatives to Improve Female Workforce Participation

1. Maternity Benefit (Amendment) Act, 2017 – Increased paid maternity leave to 26 weeks.
2. Beti Bachao Beti Padhao (BBBP) – Encourages girls' education.
3. Skill India Mission – Focus on vocational training for women.
4. Women Entrepreneurship Platform (WEP) – Supports female entrepreneurs.
5. Self-Help Groups (SHGs) – Provides financial support to rural women.

For India to achieve inclusive economic growth, closing the gender gap in employment and wages is crucial. Policies must focus on education, workplace safety, and work-life balance to bring more women into the workforce.

Factors Determining Female Labour Force Participation (FLFP) in India

Female Labour Force Participation Rate (FLFPR) refers to the percentage of women who are actively working or seeking employment. Several economic, social, and institutional factors influence women's participation in the workforce.

1. Economic Factors

A. Level of Economic Development

- As economies develop, agricultural jobs decline, and urban service-sector jobs increase.
- In India, mechanization in agriculture has reduced women's employment, but urban job creation has not absorbed them effectively.

B. Availability of Jobs

- Formal sector jobs (banking, IT, finance) require higher education and skills, limiting access for women.
- Lack of part-time and flexible jobs discourages women from working, especially after marriage.

C. Wage Gap & Economic Incentives

- Women earn 18-20% less than men for the same work (ILO Report).
- Many families prefer male employment over female employment due to the higher earning potential.

D. Cost of Childcare & Domestic Responsibilities

- High costs of childcare, household work, and elder care force women to stay at home.
- Lack of affordable daycare and support systems reduces FLFP.

2. Social & Cultural Factors

A. Gender Norms & Patriarchy

- Traditional mindset prioritizes male employment over female employment.
- Many families discourage women from working, especially in male-dominated fields.

B. Marriage & Childcare Responsibilities

- Women leave jobs after marriage or childbirth due to family expectations and lack of flexible work options.
- In India, women spend 5-6 hours per day on unpaid domestic work, compared to less than 1 hour by men.

C. Safety Concerns & Workplace Harassment

- Lack of safe transport, workplace harassment, and long commuting hours discourage women from working.
- Sexual harassment at workplaces reduces female workforce retention.

D. Social Perception of Female Employment

- In rural areas, working women are sometimes stigmatized or discouraged from pursuing careers.
- Women in high-paying jobs (STEM, management) face discrimination and a "glass ceiling" effect.

3. Educational & Skill-Based Factors

A. Female Literacy & Education Levels

- Female literacy rate in India: 70% vs. Male literacy rate: 84% (Census 2011).
- Lower education levels restrict access to formal, high-paying jobs.

B. Lack of Technical & Vocational Skills

- STEM (Science, Technology, Engineering, and Mathematics) education for women is low.
- Limited participation in skill development programs reduces employment opportunities.

C. Gender Bias in Higher Education & Employment

- Girls are often encouraged to pursue teaching, nursing, or household-related courses, limiting job choices.
- Lack of mentorship and support for women in professional careers.

4. Policy & Institutional Factors

A. Labour Laws & Maternity Benefits

- The Maternity Benefit (Amendment) Act, 2017 increased maternity leave to 26 weeks, but many companies hesitate to hire women due to higher costs.
- Rigid working hours and lack of work-from-home policies impact women’s workforce participation.

B. Government Employment Programs

- Self-Help Groups (SHGs), Skill India Mission, and Women Entrepreneurship Platform help women gain economic independence.
- However, access to loans, market linkages, and job placement is still weak.

C. Public Infrastructure (Transport & Safety)

- Poor transport infrastructure and unsafe working conditions restrict female mobility.
- Women in rural areas struggle with lack of job accessibility and transport facilities.

5. Regional & Rural-Urban Differences

A. Urban vs. Rural Disparities

- Urban women have more job opportunities in services and IT but face safety concerns and work-life balance issues.
- Rural women are mostly employed in agriculture but face job losses due to mechanization.

B. Regional Disparities

State	**FLFPR (2021-22)**
Himachal Pradesh	**37%** (Highest)
Tamil Nadu	**30%**

State	FLFPR (2021-22)
Maharashtra	**29%**
Bihar	**6.4% (Lowest)**
UP	**8%**

- States like Bihar & Uttar Pradesh have extremely low FLFP due to social norms, safety issues, and low job availability.
- Himachal Pradesh & Tamil Nadu have higher FLFP due to better education, safety, and job creation policies.

6. Global Comparison of Female Labour Force Participation

Country	FLFPR (2022)
India	**19%**
China	**61%**
USA	**56%**
Bangladesh	**36%**
Sri Lanka	**34%**

- India has one of the lowest female workforce participation rates globally.
- Even countries with similar economic structures, like Bangladesh and Sri Lanka, have higher FLFP due to better gender policies.

Policy Recommendations

1. **Encourage flexible work policies** – Remote jobs, part-time opportunities, and better maternity benefits.
2. **Improve workplace safety** – Stronger sexual harassment laws and better law enforcement.

3. **Invest in skill development** – Promote STEM education and vocational training for women.
4. **Affordable childcare & elder care** – Reduce domestic workload to encourage workforce participation.
5. **Improve public transport & infrastructure** – Safer, more accessible transport for women.

For India to achieve inclusive and sustainable economic growth, increasing female workforce participation is essential. Bridging gender gaps in education, employment, and wages will help women contribute more to the economy and improve overall social progress.

Changing Nature of Employment in India

Introduction

India's employment landscape has undergone significant changes due to economic growth, globalization, technology, and demographic shifts. However, issues like jobless growth, informal employment, and demographic challenges continue to affect the labour market.

Changing Nature of Employment in India

A. Shift from Agriculture to Services & Industry

In 1950, agriculture employed ~75% of the workforce; today, it employs ~45%. The service sector now contributes ~55% to GDP, but employment growth in this sector has been slow. Manufacturing has not absorbed enough workers, leading to slow employment expansion.

B. Rise of the Gig Economy & Informal Jobs

The growth of platform-based jobs (Swiggy, Uber, Zomato, Ola, Amazon) has changed employment patterns. Freelancing and contractual jobs are increasing, but lack security and benefits.

C. Increase in Formal Employment but Slow Expansion

The formal sector workforce is growing due to digitalization and industrial expansion. However, 90% of jobs in India are still informal, with low wages and no social security.

D. Technology & Automation Impact

AI, automation, and robotics are reducing employment in traditional sectors like manufacturing. IT, fintech, and digital marketing sectors are creating new job opportunities, but require high skills.

"Jobless Growth" in India

A. Meaning of Jobless Growth

Economic growth without proportional job creation is called jobless growth. Despite India's GDP growing at ~6-7% annually, employment growth has been less than 2%.

B. Causes of Jobless Growth

1. **Capital-Intensive Growth** – Industries are investing in technology over labour, reducing job creation.
2. **Slow Growth of Manufacturing** – The Make in India initiative has not fully boosted employment in manufacturing.
3. **Mismatch of Skills** – Education does not always match industry needs, leading to unemployment among educated youth.
4. **Informalization of Jobs** – Many new jobs are temporary or gig-based, lacking stability and security.
5. **Decline in Public Sector Hiring** – Government job recruitment has slowed due to budget constraints.

C. Impact of Jobless Growth

- **High Unemployment** – India's unemployment rate is ~8%, with higher rates among youth.
- **Rising Informality** – More workers are forced into low-paying, insecure jobs.

- **Social & Economic Inequality** – Widening income gaps between skilled and unskilled workers.

4. Labour in the Informal Sector

A. Definition of Informal Sector: Jobs without formal contracts, job security, benefits, or social protection. Includes street vendors, daily wage labourers, domestic workers, and gig workers.

B. Size & Share of Informal Labour in India: ~90% of India's workforce is in the informal sector. Informal workers contribute 50% to GDP but lack social security.

C. Reasons for Large Informal Workforce

1. **Slow Formalization** – Small businesses avoid formal employment to reduce compliance costs.
2. **Lack of Skill Development** – Many workers do low-productivity jobs due to lack of training.
3. **Strict Labour Laws** – Companies prefer contract workers over permanent employees.
4. **Seasonal Nature of Jobs** – Agriculture and construction jobs are temporary and unstable.

D. Challenges Faced by Informal Workers

- **Low Wages & Job Insecurity** – No fixed salaries, frequent layoffs.
- **No Social Security** – No pensions, health insurance, or job protection.
- **Poor Working Conditions** – Long hours, unsafe workplaces.
- **Exploitation & Lack of Rights** – No legal protection for unfair dismissals.

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5. India's Demographic Transition & Employment Challenges

- Shift from high birth & death rates to low birth & death rates, leading to a younger workforce.
- India has a young population (~65% below 35 years), creating a "demographic dividend" opportunity.

B. Challenges of India's Demographic Transition

1. **Unemployment Among Youth** – High job competition, lack of skills, and slow job creation.
2. **Need for Skill Development** – 75% of Indian workers lack vocational skills.
3. **Urban-Rural Divide** – Jobs are concentrated in cities, while rural areas face job shortages.
4. **Rise in Migration & Informal Work** – Workers migrate from villages to cities, taking up low-paid informal jobs.
5. **Pressure on Infrastructure** – More urban workers create challenges in housing, transport, and healthcare.

6. Government Initiatives for Employment Generation

A. Make in India

- Promotes manufacturing sector growth to create more jobs.
- Challenges: Slow implementation, automation reducing labour demand.

B. Skill India & PMKVY (Pradhan Mantri Kaushal Vikas Yojana)

- Provides vocational training to improve employability.
- Challenges: Mismatch between training and industry needs.

C. MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)

- Provides 100 days of guaranteed employment in rural areas.
- Challenges: Low wages, irregular work availability.

D. Start-up India & Stand-up India

- Encourages entrepreneurship & job creation.
- Challenges: Many start-ups fail due to funding and market challenges.

India's economic growth must translate into quality job creation to fully utilize its demographic dividend and ensure sustainable development.

I 2-Mark Questions

1. Define 'jobless growth' in the context of the Indian economy.

2. What is the current trend in female labour force participation in India?

3. What is meant by the 'informal sector' in employment?

4. Explain the term 'demographic dividend.'

6. What factors contribute to the low female labour force participation rate in India?

II 5-Mark Questions

1. Discuss the implications of 'jobless growth' for India's economic development.

2. Analyze the factors leading to the decline in female labour force participation in India.

3. Examine the challenges faced by workers in India's informal sector.

4. How does India's demographic transition impact its labour market?

5. Evaluate the relationship between educational attainment and female labour force participation in India.

III 10-Mark Questions

1. Critically assess the impact of India's demographic transition on its economic growth prospects.

2. Analyze the causes and consequences of 'jobless growth' in India, and suggest policy measures to address this issue.

3. Discuss the role of the informal sector in India's economy and the challenges it poses for labour welfare.

4. Evaluate the trends in female labour force participation in India and propose strategies to enhance women's employment.

5. Examine the interplay between India's demographic dividend and its labour market dynamics, considering the challenges of unemployment and underemployment.