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Indian Economy

SEMESTER - VI

ECONOMICS

BLOCK - 2

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BLOCK INTRODUCTION

The second block of the course on Indian Economy consists of eight units. The first unit (which is the eighth unit of the course) discusses about the Indian industrial sector. The ninth unit discusses the issues relating to small scale and cottage industries and industrial sickness in India. After going through this unit, you will be able to acquire a fair knowledge about India's small scale and cottage industries. The problem of industrial sickness has also been discussed in the unit. The tenth unit deliberates on the role of the tertiary sector in Indian economy. Here, the recent growth and major issues faced by the service sector have been discussed. The eleventh unit is on the financial sector. Here, the role played by major financial institutions in the Indian economy and a few related issues have been discussed. The twelfth unit of the course discusses the problems relating to the informal economy of India. The next unit of the course discusses planning for development. The overall objectives and achievements of economic planning, and the major objectives of the last Five year plan have been discussed in the unit. The fourteenth unit discusses about economic reforms and globalisation. The post economic reform environment has been discussed in the unit. The last unit of the course is also related to economic reforms and globalisation of the economy. This unit deliberates on World Trade Organisation. After going through this unit, you will be able to know about the structure and functions of WTO, different agreements reached under its framework and India's prospects and challenges from being a member of it.

While going through a unit, you will notice some along-side boxes, which have been included to help you know some of the difficult, unseen terms. Some "ACTIVITY' (s) have been included to help you apply your own thoughts. Again, we have included some relevant concepts in "LET US KNOW" along with the text. And, at the end of each section, you will get "CHECK YOUR PROGRESS" questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with "ANSWERS TO CHECK YOUR PROGRESS" given at the end of each unit.

UNIT 8 : INDIAN INDUSTRY : DEVELOPMENTAL EXPERIENCES

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Strategy of Industrial Development in India

8.4 Industrial Development and the Trend of Industrial Production since Independence

8.4.1 Industrial Development since Independence

8.4 2 Trend of Industrial Production since Independence

8.5 Problems of Industrialisation in India

8.6 Industrial Policy Resolution, 1956

8.7 Industrial Licensing Policy prior to 1991

8.8 New Industrial Policy, 1991

8.10 Let Us Sum Up

8.11 Further Reading

8.12 Answers to Check Your Progress

8.13 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the strategies of the industrial development in India
- state the status of industrial development and the trend of industrial production
- point out the problems Indian industries are having to tackle, explain the major features of IPR, 1956
- describe the licensing policies relating to industry
- explain the New Industrial Policy of 1991

8.2 INTRODUCTION

India has made considerable economic progress since its Independence. Most noticeable are the expansion and diversification of

production both in industry and agriculture. New technologies were introduced in many industries. Industrial investment took place in a large variety of new industries. Modern management techniques were introduced. Over the years, the Government has built the infrastructure required by the industry and has made massive investments to provide the much-needed facilities of power, communications, roads etc. However, with the changing of time, the economy has been transformed from public sector controlled economy into a liberal economy, where the private sector has to play the major role in the changing circumstances of the global economy. This unit will introduce you to the industrial sector of India, and the major changes it has witnessed over the years, in terms of policies and practices.

8.3 STRATEGY OF INDUSTRIAL DEVELOPMENT IN INDIA

The British left the industrial sector of India in a very distressed situation. On one hand, it destroyed the traditional handloom and handicraft industries of India and on the other, transformed the economy to be the consumer of machine made products imported from England. The centre piece of India's development strategy thus, was the modernization of the economy through industrialization. The development strategy adopted by the Indian planners consisted of the following:

- **Establishment the Industrial Infrastructure with Pubic Efforts:** Private industrial effort was viewed inadequate for the task of developing India's infrastructure. Underlying this view, public sector was involved in the task of establishing the industrial infrastructure of the country. Even non-infrastructure sectors such as steel, chemicals or machine tools may be subject to coordination or linkage issues that require a *'big push'* further supporting public interest. Thus, India's leaders embarked on a programme of government occupation of the 'commanding heights' of the economy.
- **Expansion and Modernisation of Industries:** The rapid pace of industrial growth and the development of productive capacity required

the expansion and modernization of coal mining, as coal is India's primary source of fuel for the industries. In fact, public sector enterprises were created to take leading roles in all industries and sectors viewed as central to the industrialization programme, including steel, chemicals, and engineering, as well as trade and finance.

- **Establishment of Heavy Industries:** From the very inception of economic planning in India, the engineering industry including machine building industry represented the core of India's development process. A broad-based industrial structure could not be sustained except on the basis of a strong, vibrant growth- oriented engineering sector. At the same time, the engineering industry was encouraged to develop indigenous skills and know-how and reduce dependence on imported technology. It was realized that technological skills and expertise alone could lead to high productivity levels and consequently to high levels of incomes. The engineering industry was therefore being promoted to act as a catalytic agent for overall economic development.
- **Import substitution:** Another aspect of the industrial strategy was the policy of import substitution. From the very beginning, a shortage of foreign exchange was anticipated as a major constraint to developmental efforts. It was therefore rightly decided to reduce the demand of imports and to promote generation of foreign exchange earnings. Substantial measures were taken for import substitution, and thus, preserving foreign exchange for development.
- **Emphasis on Science and Technology:** Significant progress has been made in science and technology. Indian scientists and technologists have made advances in the development of nuclear power, and the use of space technology for communications and resource development. The country has been able to train a cadre of technical manpower which can handle cement factories, chemical fertilizer units, oil refineries, power houses, steel plants, locomotive factories, engineering industries etc. However, small and cottage industries and other rural activities have not received the research and development support that they required.

- **Emphasis on Agricultural and service sectors:** A large infra-structure consisting of a network of irrigation, storage works and canals, hydro and thermal power generation, regional power grids, a largely electrified and diesel run railway system, national and state highways on which a rapidly growing road transport fleet can operate and telecommunications system covering most urban centres and linking India with the rest of the world has been built up. Additionally an efficient complex of refineries, pipelines, storage and distribution system has been built up. The development of modern industry as well as of agriculture has stimulated the growth of banking, insurance and commerce and required expansion and modernization of ports, shipping and internal and external air services.



CHECK YOUR PROGRESS

Q 1 : State whether the following statements are True or False :

(a) The British took steps to promote the indigenous industries of India. (T/F).

(b) Establishment of heavy industries with the help of the private sector was the strategy of the government. (T/F)

Q 2 : How did the strategy of import substitution help India? (Answer in about 50 words).

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8.4 INDUSTRIAL DEVELOPMENT AND THE TREND OF INDUSTRIAL PRODUCTION SINCE INDEPENDENCE

In the following sections, we shall discuss industrial development and the trend of industrial production of Indian industries since independence.

8.4.1 Industrial Development since Independence

You have already studied that in the post-independence period, India started to develop different types of industries with the help of economic planning. The index of industrial production (Base 1980-81=100) increased from 18.3 in 1950-51 to 65.3 in 1970-71. During this twenty years period of planning, some basic and heavy industries were developed in the country. Due to the expansion of the industrial base, the index of industrial production had again increased from 100 in 1980-81 to 196.4 in 1989-90, then to 154.9 in 1999-2000 and then to 221.5 in 2005-06. (**Source:** *Economic Survey*, 1992-93, 1997-98 and 2006-07). in the recent years (Base 2011-12=100) the IIP has increased to 1.4.6 in 2016-17, 104.4 in 2017-18 and the declined to 103.8 in 2018-19 (**Source:** CSO)

The process of industrialisation, launched as a conscious and deliberate policy under the framework of Industrial Policy Resolution of 1956 (*we shall discuss more about IPR, 1956 in the subsequent section 7.6 of this unit*) involved heavy investments in building up capacity over a wide spectrum of industries. As a result, industrial production has gone up by more than five times during the last 60 years, making India the tenth most industrial country in the world.

The industrial structure is widely diversified covering broadly the entire range of consumer, intermediate and capital goods. With the expansion of public sector enterprises, joint sector enterprises and private sector enterprises in the later period, various types of industries have developed in the country. The public sector industries produce goods like coal, steel, light and heavy engineering goods, power, petroleum, minerals and metals, fertilizers, chemicals and pharmaceuticals, textiles, transportation equipments, construction materials, electricity, gas etc.

The private sector corporates are engaged in manufacturing textiles, metal products, chemicals, construction materials,

electronics, leather and leather goods, manufacture of foodstuffs and its processing, agriculture and agro-based industries.

The progress India has made in the field of industrialization is clearly reflected in the commodity composition of India's foreign trade in which the share of imports of manufactured goods has steadily declined. On the other hand, industrial products particularly engineering goods have become a growing component of India's exports. Finally, the rapid stride in industrialization has been accompanied by a corresponding growth in technological and managerial skills for efficient operation of the most sophisticated industries and also for planning, designing and construction of such industries.

8.4 2 Trend of Industrial Production since Independence

Industrial growth has not been uniform since 1951. After a steady growth of 8% during the first fourteen years (1951 to 1965), the growth began to fluctuate. Industrial growth was almost stagnant during 1967-68. It was 9.5% during 1976-77 but 1.4% in 1979-80. During 1980-85, the growth rate of industrial production was 5.5% per annum. During the seventh plan, (1985-90), the growth rate had picked up to an average of over 8% per annum and in the eight plan (1992-1997) it had declined to 7.3% per annum. During the ninth plan (1997-2002) industrial growth fell to 4.6% per annum but during the tenth plan (2002-2007), it again went up to about 9.1% per annum.

Let us consider Table 8.1 depicting the growth of industrial production in a wide variety of industries over the years, since 1950-51 to 2013-14.

From Table 8.1, it can be easily inferred that there has been huge increase in the volume of production in a wide variety of industries. From just a meager 9 million tonnes of fertilizers in 1950-51, the country has produced 16,902 million tonnes in 2013-14. Impressive increase in production has also been recorded in electricity, cloth, aluminimum, commercial vehicles, finished steels

as well as cement and paper & paper board.

Table 8.1 : Growth of Industrial Production of Selected Commodities over the Years

Sl	Commodity and units	1950-50	1970-71	2005-06	2013-14
1	Cloth (in million meters)	4,215	7,602	23,873	63,500
2	Fertilisers (in '000 tonnes)	9	830	11,402	16,092
3	Cement (in million tonnes)	2.7	14.3	147.8	255.00
4	Finished steels (in million tonnes)	1.0	4.6	44.5	87.7
5	Electricity (in billion kwh)	5.1	55.8	617.0	967.2
6	Aluminium (in thousand tonnes)	4.0	168.8	560.5	3958
7	Paper & paper board (in thousand tonnes)	116	755	3,913	4389*
8	Commercial vehicle (in thousand units)	8.6	41.2	391.0	910.2*

Source: *Datt & Sundharam's Indiain Economy, 2016.*

**Figures are for the year 2014-15.*

The contribution of the industrial sector to the GDP of the country was 15% in 1950-51. It gradually increased to 22.3% in 1970-71, and then to 26.8% in 2007-08 (Economic Survey 2007-08). Table 8.2 shows the Index of Industrial Production of India.

Table 8.2 : Growth of Index of Industrial Production of India

Industry Group	Weight	% of growth	
		2007-08	2008-09
Mining	104.7	5.1	2.3
Manufacturing	793.6	9.0	2.3
Electricity	101.7	6.4	2.8
Growth by use based industrial groups			
Basic goods	355.7	7.0	2.5
Capital goods	92.6	18.0	7.0
Intermediate goods	265.1	9.0	-2.8
Consumer goods	286.6	6.1	4.4
Durables	53.7	-1.0	4.4
Non-durables	233.0	8.6	4.4
General Index	1000	8.5	2.4

Sources : Economic Survey 2008-09; Report of Central Statistical Organisation.



CHECK YOUR PROGRESS

Q 3 : State whether the following statements are True or False.

(a) During the first twenty years of planning, India established a series of micro industries in the public sector for the production of consumer products. (T/F)

(b) The industrial structure in India is widely diversified. (T/F).

Q 4 : State the plan-wise rate of growth of industrial production after the 1980s and till the recent years. (Answer in about 60 words)

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8.5 PROBLEMS OF INDUSTRIALISATION IN INDIA

It is true that industrialisation in India since independence has significanty contributed towards the growth in national income, increasing employment opportunities and thereby making positive impact on reduction of poverty and improvement in health and education of the people of India. However, the industrial sector of India is facing some crucial problems, which is retarding its pace of growth. Some of India's current problems regarding industrialisation are mentioned below:-

Infrastructure : Even when the country set up a heavy industrial base of basic industries, it lacks the industrial base that propels rapid economic growth of the globalised economies today. Thus, poor infrastructure is acting as a drag on the Indian economy, and the Indian government is now attracting private domestic and foreign investment to build the backbone of a modern economy. This includes massive improvements in telecommunications, power, energy, and transport.

India has recognised the vital role telecommunications play in the

growth of the economy. The Indian telecom sector was wholly under government ownership and control until recently and was characterised by under-investment and outdated equipment. There is a vast potential for extending these services in India, which has one of the world's smallest telephone densities of 1.3 per 100 people, compared with the world average of 10 per 100. Advanced communication services such as fax, data transmission, and leased circuits are becoming increasingly common. Foreign collaboration is also being encouraged in cellular phones and paging systems. The power problems are severe in India with three-hour-a-day power cuts and damaging voltage fluctuations that require companies to generate their own power. Investment in energy is a sound way of increasing manufacturing activity.

As part of India's liberalisation efforts, the transportation sector has been opened to private investment. The government is offering incentives to invest $4.7 billion to construct and operate bypass roads, highways, bridges, railways, and ports.

Inefficient Public sector : We have already seen that in an attempt to build up the industrial base of the economy, the country had created a huge public sector. But India's public sector is notoriously bloated and inefficient. The World Bank has turned down applications for power loans worth $750 million for projects in some states because of mismanagement in their government. Many electricity boards have become insolvent as a result of providing electricity at extremely subsidised rates and ignoring large-scale thefts of electricity. State governments have been unable or unwilling to take the politically unpalatable decisions needed to make their electricity boards viable.

The most telling evidence of the cost of delaying reform is the sheer effort companies have to expend to cope with the country's labyrinthine bureaucracy. For example, foreign investors continue to seek permission from the Foreign Investment Promotion Board, even though their plans are covered by the automatic approvals system.

Tax Problems : India's tax system is highly defective and should be transformed with high differential tax rates falling on a narrow base, into

one with tax rates at moderate levels falling on a broad base. The 1995 fiscal budget reduced taxes on corporate income, and a major reform of excise taxes has been implemented to make it resemble a value-added tax more closely.

But the government's income is also constrained by an inefficient taxation system. Rural areas are not taxed, because in most of the states of India, agricultural income tax has not been implemented. Income tax is skilfully dodged. This leaves the government with excise and customs duties, which represent two thirds of all taxes.

Inefficient Labour market : India needs greater labour market flexibility to make its companies more competitive and its economy more productive. Politically powerful labour unions have stifled most efforts of serious reform or privatisation of India's largest public sector enterprises. Thus, public sector banks, insurance companies, and many major industries are being run inefficiently. Thus, it has been criticized that India's labour laws hinder efficiency and growth.

Financial sector : India's financial sector still cannot effectively mobilise and mediate capital to respond to economic changes. The resulting high cost of capital makes Indian industry and exports less competitive. In spite of recent improvements, India's equity markets are still too thin and volatile to inspire great confidence on the part of domestic or foreign investors. India's banking system remains flawed, with the dominant state-owned banks still carrying bad loans amounting to 15 to 25% of their total.

Environmental Pollution : The environmental problems in India are growing rapidly. The increasing economic development and a rapidly growing population that has taken the country from 300 million people in 1947 to more than one billion people today is putting a strain on the environment, infrastructure, and the country's natural resources. Industrial pollution, soil erosion, deforestation, rapid industrialization, urbanization, and land degradation are all worsening problems. Overexploitation of the country's resources has resulted in environmental degradation of resources. Environmental pollution is one of the most serious problems facing humanity and other life forms on our planet today.



CHECK YOUR PROGRESS

Q 5 : State whether the following statements are True or False:

(a) The tax system of India is highly efficient. (T/F)

(b) Indian exports are less competitive. (T/F).

Q 6 : Outline the prospects of the of the telecommunication sector in India. (Answer in about 60 words).

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8.6 INDUSTRIAL POLICY RESOLUTION, 1956

Immediately after Independence, the Government of India introduced the Industrial Policy Resolution, 1948. This policy resolution outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977, 1980 and 1991.

Industrial Policy Resolution, 1956 : The Industrial Policy Resolution of 1956 (IPR, 1956) had the objective of accelerating of the rate of economic growth and the speeding up of industrialisation as a means of achieving a socialist pattern of society. This industrial policy is said to have drawn the road map of Indian industries. Major provisions of IPR, 1956 include:

- **New classification of industries :** The IPR 1956 categorised different industries of the country into three major categories and listed them in three schedules as follows:

- ***Schedule A:*** This list contained a total of 17 industries that were open only to the public sector. These industries were: arms and ammunition; atomic energy; iron and steel; heavy castings and forgings of iron and steel; heavy machinery required for iron and steel production, for mining and for machine tools manufacturing; heavy electrical industries; coal; mineral oils, mining; iron ore and other important minerals like copper, lead and zinc; aircraft; air transport, railway transport, shipbuilding; telephone, telegraph and wireless equipment; generation and distribution of electricity.
- ***Schedule B:*** This list included the 12 industries in which the public sector is expected to play the lead role. The private sector is expected to play supplementary efforts in these industries. These industries were: other mining not included in schedule A; aluminimum and other non-ferrous metals not included in Schedule A; machine tools; ferro alloys and tool steels; the chemical industry; antibiotics and other essential drugs; fertilizers; synthetic rubber; carbonization of coal; chemical pulp; road transport; sea transport.
- ***Schedule C:*** This list included all other remaining industries and their future development would, in general be left to the private sector.

- **Fair and non-discriminatory treatment to private sector:** To facilitate and promote enterprising activities of the private sector, the state was to undertake the facilitating role by providing infrastructural facilities, like transport, power and other services and by taking appropriate fiscal and other measures. In case of existence of private sector and public sector enterprises in the same industry, the duty of the government was to practise non-discriminatory treatment to both of them.
- **Promotion of village and small-scale enterprises:** For the promotion off village and small-scale enterprises, the State was to limit its volume of production in its similar big industries. Again, provision of differential tax treatment and direct subsidies were also allowed.
- **Removal of regional disparities:** IPR, 1956 also had emphasized on the removal of regional disparities among the different regions of the country. According to it, proper attention to agricultural sector across all

regions of the country should also be paid, such that the standard of living of all the people across the country is improved.

Apart from the IPR, 1956, India has adopted the Industrial Policy Statement of 1977 which laid emphasis on decentralisation and on the role of small-scale, tiny and cottage industries. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, liberalization of the licensing policy, technological upgradation and modernisation.



CHECK YOUR PROGRESS

Q 7 : State whether the following statements are True or False :

(a) The first industrial policy resolution in India was adopted in 1956. (T/F)

(b) The Industrial Policy Resolution of 1956 classified the industrial sector of Indian into 5 major categories. (T/F).

Q 8 : Which industries were included in Schedule B of the IPR, 1956? (Answer in about 60 words).

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8.7 INDUSTRIAL LICENSING POLICY PRIOR TO 1991

Industrial licensing policy prior to 1991 in India can be discussed under the framework of two major industrial acts/policies: a) Industries (Development & Regulation) Act, 1951 and b) Industrial Policy, 1980.

- **Industries (Development & Regulation) Act, 1951 :** In the post-independence period, the first industrial licensing policy was adopted in line with Industries (Development & Regulation) Act, 1951, which was framed in accordance with the IPR, 1948. The important provisions of this act were:

- Licensing from the Union Government is compulsory for setting up of new industrial units as well as major expansion of existing units. In case of grant of license to new industrial units, government has the authority to lay conditions regarding location, minimum volume of production, etc.
- If particular undertakings fail to effectively implement the instructions of the government regarding improvement in managerial practices and policies, government has the authority to take control of the management of such undertakings.
- According to this policy, government had the authority to prescribe prices as well as methods, volume of production and the channel of distribution of the finished products.

Later, a number of committees (Dr. R. K Hazari Committee, Subimal Dutt Committee) set up by the Government of India had unearthed a number of loopholes in the process of industrial licensing. The major loopholes were: a) only a few large industrial houses were able to garner most of the benefits. b) No follow up action after the issues of licenses were undertaken. c) Setting up of industries was confined only to 4 states, viz, Maharashtra, West Bengal, Gujarat and Tamil Nadu. These states acquired 62% of all the licenses issued by the Centre. This spread regional inequalities in India. d) In practice, industries reserved for the public sector was opened up for private sector.

- **Liberalisation of Industrial Licensing after 1980 :** The Industrial Policy of 1980 made sea changes in terms of liberalizing the licensing in favour of the large business houses. Many provisions of the erstwhile MRTP Act (Monopolies and Restrictive Trade Practices Act) and FERA (Foreign Exchange Regulation Act) were relaxed. Other features of the Industrial Policy of 1980 include:
  - ***Broad band industries*** mean a number of industries in the same product category. For example, in case of fertilizer, there may exist a number of variety of products, viz., NPK, Super Phosphate, Urea, Copper Aminoate, Bio fertilizers, etc.

The policy of automatic licensing was made applicable for those industries, which wanted to achieve economies of scale, with a minimum of 49% rise in the existing volume of production, and aiming to adopt modernization of the industries. In 1986, government delicensed 23 industries from any MRTP and FERA clearance, provided the undertakings were located in the industrially backward areas identified by the Centre.

- Instead of issuing licenses to a particular industry, licenses were issues to ***broad-band industries*** subject to not exceeding the total volume of production as has been made provision for during licensing. This helped the industries to vary their production among a number of variety of goods, based on the market demand.
- The asset limit of the companies as laid down in the MRTP Act, was raised.
- Number of industries requiring compulsory licensing was reduced from 56 to 26.



Broad band industries mean a number of industries in the same product category. For example, in case of fertilizer, there may exist a number of variety of products, viz., NPK, Super Phosphate, Urea, Copper Aminoate, Bio fertilizers, etc.



CHECK YOUR PROGRESS

Q 9 : State whether the following statements are True or False:

(a) The first industrial licensing policy in India was based on the Industrial Policy Resolution of 1948. (T/F)

(b) Industries (Development and Regulation) Act, 1951 had provisions of Government's control on prices, volume of production and also channels of distribution of the finished products. (T/F).

Q 10 : How was the policy of automatic licensing was made applicable in the Industrial Policy of 1980? (Answer in about 40 words).

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8.8 NEW INDUSTRIAL POLICY, 1991

The Government's liberalisation and economic reforms programme is stated in the Industrial Policy Statement of 1991. This policy aims at rapid and substantial economic growth, and integration with the global economy in a harmonised manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment. This policy is also known as Liberalisation, Privatisation and Globalisation (LPG) policy of India.

The main thrusts of the industrial policy of 1991 are the following:

- Number of industries reserved for the public sector as listed in Schedule A of IPR, 1956 has been considerably relduced. Most of the industries have been opened for the private sector.
- Licensing was made mandatory only for 18 industries in 1991. 3 more industries were further relaxed from mandatory licensing in 1993. As of now, only industries need prior licensing from Centre. In most of the cases, the only license today required is the Environmental clearance.
- Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be obtained from the Ministry of Environment, Government of India. This list includes industries like petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilisers, dyes, paper etc. However if investment is less than Rs. 500 million, such clearance is not necessary, unless it related to pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries.
- Apart from the liberalization and globalisation of economy, it also aimed at building upon the gains achieved, to correct the distortions, maintain

a sustained growth in productivity and gainful employment and attain international status, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man.

- The spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments. While recognizing the role of public sector, the new policy seeks to ensure that the public sector is run on business lines envisaging privatization, disinvestments and public sector restructuring.
- Another major objective of the policy is to integrate the Indian economy with the world economy. There will be emphasis on developing ability to self finance India's imports.
- The policy also aimed at encouraging entrepreneurship, development of indigenous technology, ushering in new technologies by dismantling redundant controls, and developing capital markets. With this end in view, foreign investment will be welcomed. This will bring in new technology, expand the production base and permit increased imports. To achieve these objectives, more dynamic policies in terms of both technology and investment has to be adopted.
- Inflow of Foreign Direct Investment (FDI) was encouraged with an aim to take advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic cooperation marked by mobility of capital. In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment upto 51% foreign equity in such industries.
- With a view to injecting the desired level of technological dynamism in Indian industry, Government will provide automatic approval for technology agreement related to high priority industries within specified parameters. Indian companies will be free to negotiate the terms of

technology transfer with their foreign counterparts according to their own commercial judgment.

- To sustain global competition, government has the indigenous industries to invest much more in research and development than they had done in the past. In order to help this process, the hiring of foreign technicians and foreign testing of indigenously developed technologies, will also not require any prior clearance.



CHECK YOUR PROGRESS

Q 11 : State whether the following statements are True or False :

(a) The New Industrial Policy statement of 1991 is also known as Liberalisation, Privatisation and Globalisation (LPG) policy of India. (T/F)

(b) The public sector of India received a major boost with the initiation of the New Industrial Policy of 1991. (T/F)

Q 12 : What provisions were made with respect to foreign investment in the New Industrial Policy statements of 1991? (Answer in about 60 words).

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8.9 LET US SUM UP

- India has made considerable economic progress since its Independence.
- The centre piece of India's development strategy since independence is modernization through industrialization.
- Most of the industries are located in the states of Maharashtra, West Bengal, Tamil Nadu and Gujarat.
- The index of industrial production had gone up from 7.9 in 1950-51 to

154.7 in 1999-2000. In the recent years, with the base of 2011-12, the IIP had increased to 104.4 in 2017-18, but then declined to 103.8 in 2018-19.

- Several capital goods industries such as iron and steel, fertilizers, chemicals, cement, non-ferrous metals etc-have been set up.
- Consumer goods industries have been expanding since the demand for consumer durables have gone up.
- The rapid expansion of large scale industries has resulted in the comparative neglect of the small and medium sector.
- Sufficient attention has not been given to the promotion of small scale industries in the consumer goods sector which can reconcile the twin objectives of higher growth and higher employment.
- India needs greater labour market flexibility to make its companies more competitive and its economy more productive.
- The spread of industrialisation to backward areas of the country is actively promoted through appropriate incentives, institutions and infrastructure
- Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project.
- Industrialization in India has not been able to solve the problem of unemployment.



8.10 FURTHER READING

1) Agrawal, A. N. (2019). *Indian Economy: Developmental Problems and Policies.* New Delhi: New Age International Publishers.
2) Datt, G and Mahajan, A. (2016). *Datt & Sundharam's Indian Economy.* New Delhi: S. Chand & Co.
3) Kapila, U. (2003). *Indian Economy since Independence.* New Delhi: Academic Foundation.
4) Misra, S.K. & Puri, V.K. (2018). *Indian Economy.* New Delhi: Himalya Publishing House.

8.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1 : (a) False (b) False

Ans to Q No 2 : The strategy of import substitution helped in the savings of foreign exchanges. Thus, India could utilise the foreign exchanges in its development efforts. It also promoted the domestic industrial sector of the economy.

Ans to Q No 3: (a) False (b) True

Ans to Q No 4: During 1980-85, the growth rate of industrial production per annum was 5.5%. During the seventh plan (1985-90), it picked up to over 8%. In the eighth plan (1992-97), it slightly declined to 7.3%. In the ninth plan (1997-2002), it further declined to 4.6% per annum. In the last completed tenth plan (2002-2007), the growth rate rose to 9.1% per annum.

Ans to Q No 5: (a) False (b) True

Ans to Q No 6: The telecommunication sector of India has been freed from government controls. The prospect of this sector is very high. This is because of the fact that India has one of the lowest telephone densities (1.3 telephones per 100 population), compared to the world average of 10 per 100 persons. The growth of the information technology (IT) sector in India also signals higher potential of growth for the telecommunication sector.

Ans to Q No 7 : (a) False (b) False

Ans to Q No 8 : The schedule B of the IPR, 1956 included 12 industries in which the public sector was expected to play the lead role. The private sector was expected to play supplementary efforts. Important industries included in this schedule were – coal, synthetic rubber, road transport, sea transport, anti-biotics and other essential drugs, etc.

Ans to Q No 9 : (a) False (b) True

Ans to Q No 10 : The Industrial Policy of 1980 made provisions for automatic licensing to those industries which wanted to achieve economies of scale, with a minimum of 49% rise in the existing volume of production, and aiming to adopt modernization of the industries.

Ans to Q No 11 : (a) True (b) False

Ans to Q No 12 : The inflow of Foreign Direct Investment (FDI) was greatly encouraged in the NEP of 1991. It was encouraged with an aim to take advantage of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. In industries requiring large investments and advanced technology, FDI up to 51% has been allowed.

8.12 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1 : Discuss briefly the industrial development in India since independence.

Q 2 : Write a short note on the trend of industrial production in India since independence.

Q 3 : State the role of infrastructure in the industrial development of India.

Q 4 : Prepare a short note on the new classification of industries as was listed in the Industrial Policy Resolution of India, 1956.

Essay-type Questions (Answer each question in about 300-500 words)

Q 1 : Discuss the provisions of the industrial licensing policies in India prior to 1991.

Q 2 : Describe the major aims and objectives of the New Industrial Policy, 1991 adopted by India.

Q 3 : Give your views on the pattern and strategy of industrial development in India since independence.

Q 4 : Discuss industrial development in India and its trend since independence.

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UNIT 9: SMALL SCALE AND COTTAGE INDUSTRIES AND INDUSTRIAL SICKNESS

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Definition of Small Scale Industries and related Terms

9.4 Role of Small Scale Industries in the Indian Economy

9.5 Government Policy relating to Small Scale Industries

9.6 Problems of Small Scale Industries in India and their Remedial Measures

9.6.1 Problems faced by the Small Scale Industries

9.6.2 Remedial Measures

9.7 Let Us Sum Up

9.8 Further Reading

9.9 Answers to Check Your Progress

9.10 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- get a clear knowledge of the definition of small scale industries (SSIs) and other such industries
- describe the role of small scale industries in the Indian economy
- outline the problems of SSIs and discuss the respective government's policies undertaken to address the problems.

9.2 INTRODUCTION

The small-scale industrial sector in India has been a major contributor to the country's Gross Domestic Product (GDP). This traditional sector in India is considered to have huge growth prospects with its wide range of

products. With 40 percent share in the total industrial output and a contribution of approximately one-third to the country's total exports, the small-scale industrial sector in India is acting as an 'engine of growth' in the new millennium. This unit shall make you familiar with the different types of small scale industries (SSIs) of India and their role in the Indian economy. As you go through this unit, you will also be able to know the government policies undertaken to promote the SSIs in the country as well as acquire some insights into some of the problems of the SSI units. Special attention has been given to the problem of industrial sickness of the SSIs. The magnitude of industrial sickness of the SSIs, different causes, consequences as well as a few remedial measures to be undertaken to solve this problem have been discussed in this unit.

9.3 DEFINITION OF SMALL SCALE INDUSTRIES (SSIs) AND RELATED TERMS

The definition for small-scale industrial undertakings has changed over time. Initially, they were classified into two categories- those using labour power with less than 50 employees and those using labour power of more than 50 but less than 100 employees. However, the capital resources invested on plant, machinery and buildings have been the primary criteria to differentiate the small-scale industries from the large and medium scale industries. An industrial unit can be categorized as a small-scale unit if it fulfils the capital investment limit fixed by the Government of India for the small-scale sector.

As per the latest definition which is effective since December 21, 1999, for any industrial unit to be regarded as Small Scale Industrial unit the following condition is to be satisfied:

Investment in fixed assets like plants and equipment either held on ownership terms, on lease or on hire purchase should not be more than Rs 10 million (i.e., Rs 1 crore. The limit to the number of manpower employed has been relaxed since 1960). With effect from Oct. 2006, the investment limit in Small Scale Industries, has been increased to the range of 25 lakhs to 5 crores.

However, such an industrial unit in no way can be owned or controlled or be an ancillary of any other industrial unit.

Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the traditional small-scale industries in India. Having defined as SSI unit, let us consider some similar categories of industries.

Tiny Enterprises : Investment limit in plant and machinery in respect of tiny enterprises is Rs 2.5 million (i.e., Rs 25 lakh) irrespective of location of the unit.

Cottage Industries : "Cottage industries" is a term that was used previously during the eighteenth and nineteenth centuries to describe the home-based system of manufacturing. In the changing context, a cottage industry is viewed as a system of production which takes place in private homes rather than in a factory, with the tools and other means of production individually owned. Cottage and small-scale industries are not required to be registered under the Factory Act.

There is no accepted line of distinction between cottage and small-scale industries. Earlier, the distinction was made based on use of electricity. However, with the change of time, and with easy availability of electricity even in the most interior villages of the country, this distinction has become blurred. Another basis of distinction between the two is the number of workers engaged in them. However, in practice, this criterion has very limited utility. The third criterion that may be applied in this regard is to look if the worker himself owns the unit (which is to be small as per existing norms), or it is run by a co-operative group. In the first case, it will be regarded as a cottage industry, and in the latter, it will be considered as an SSI unit.

Medium enterprises : Medium enterprises are those where Investment in Plant and Machinery is more than Rs. 5.00 crore but does not exceed Rs.10 crore.

The Micro, Small and Medium Enterprises (MSME) have been classified in two Classes:

- **Manufacturing Enterprises :** These enterprises are engaged in the manufacture or production of goods pertaining to any industry. The Small Manufacturing Enterprise is defined in terms of investment in Plant &

Machinery. In case of medium enterprises, investment in Plant and Machinery can be more than Rs.25 lakhs but must not exceed Rs.5.00 crores.

- **Service Enterprises :** These enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment. Micro Service Enterprises are those where Investment in equipment does not exceed Rs.10 lakhs.



CHECK YOUR PROGRESS

Q 1: State whether the following statements are True or False.

a) According to the latest norms, a unit employing less than 50 labourers is regarded as an SSI unit.

b) Registration of the cottage industries is mandatory.

Q 2: Define a SSI Unit. (Answer in about 40 words).

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9.4 ROLE OF SMALL SCALE INDUSTRIES IN THE INDIAN ECONOMY

Small Scale Industries are located throughout the country, though predominantly in the rural areas. To simply say that small scale units are an important part of the manufacturing sector is a very big understatement. Small and Medium Enterprises, or SME, form the large majority of industrial and service units across the world. In the present scenario, SMEs in India, have embraced high technology, accepted norms of quality and competitiveness and are thus expanding faster than the rest of the industrial economy. Their contribution to the Indian economy can be summarized as follows:

- It has been estimated that there were about 128.44 lakh SSIs in India as on March 31, 2007, accounting for about 39 percent of the gross value of output in the manufacturing sector.
- More than 7 million new jobs have been created in the sector in 2001-02 to 2006-07, taking the total employment to 31.3 million (estimated figure).
- Exports from the sector have gone up from US $15.28 billion in 2000-01 to $33.94 billion in 2006-07, representing one-third of the country's total exports.
- Some 6,000 items are produced in the sector.
- Over 21,400 units have been certified as ISO 9000/14001 compliant.

Small scale industries have a central place in rural development programmes. Products of large-scale industries have increasingly limited the market for several classes of artisans. Development outside the rural sector has not been rapid enough to arrest the increasing pressure of the population on the land. The development of village industries should, therefore, be as much a matter of State action as the increase of agricultural production. Indeed, one cannot be separated from the other, for, increase in agricultural production presupposes fuller utilisation of the available manpower and release of surplus workers for other occupations. In fact, since independence, the Government of India has nurtured this sector with special care with the following aims:

- To develop this sector as a major source of employment To encourage decentralized industrial expansion,
- To ensure equitable distribution of income, and
- To mobilize capital investment and entrepreneurship skills.

Small scale firms are helpful in the achievement of these goals in the following ways:

- **Employment :** Small scale firms use labour-intensive techniques and, therefore, they have high potential to provide employment to a larger number of people per unit of capital. For every worker employed in large scale industries about three workers are engaged in small scale and cottage industries. We have already said that, next to agriculture, small business constitutes the most popular occupation of the people of India

particularly among the educated and professional class.

- **Balanced Regional Development :** SSIs promote decentralized development and help in removing regional disparities in industrialization. Again, by providing employment in rural areas they help check migration and overcrowding in urban areas. Small scale firms can be a useful means of rural reconstruction and development.
- **Optimization of Capital :** Small scale firms require less capital per unit of output and, therefore, greater output can be obtained with small investment. The Annual Surveys of Industries reveal that fixed capital per employee in case of small scale industry was Rs. 3,706 as compared to Rs. 27,757 in case of large scale industry. In India, where the rate of capital formation is low, SSIs are very suitable as their gestation periods are short.
- **Mobilization of Local Resources :** SSIs facilitate mobilization and utilization of local resources and family skills which might otherwise remain latent or unutilized. Small business promotes small entrepreneurs and encourages local talent. The growth of small enterprises helps in tapping latent resources like entrepreneurial skills and small savings, especially in the rural areas.
- **Exchange Earnings :** SSIs help in reducing pressure on the country's balance of payments in two ways. First, they do not require imports of sophisticated machinery and equipment. Secondly, they earn valuable foreign exchange through exports of their products. Small scale sector accounts for 40 percent of the exports of non-traditional items and about 33 per cent of the country's total exports (2005-06).
- **Egalitarian Society :** Small scale industries help in reducing the concentration of economic power in a few hands. They promote a more equitable distribution of national income and wealth. Development of SSIs, thus, helps to reduce monopolies and exploitation of consumers.
- **Feeder to Large industries :** The small scale sector is complementary to the large scale industries. Small scale industries manufacture various types of components, spare parts, tools and accessories which are required by the large scale sector.

- **Growth Prospects of SSIs in Post Liberalization Period :** Post liberalization economic condition has created immense growth prospect for the small scale industries. The government has also supported the small scale industries by the way of implementing policies like investment ceiling for the SSI sector and priority lending. It is true that the formation of WTO in 1995 resulted in a major challenge to the well being of the SSIs. However, it has been found that if the SSIs upgrade their technology, adopt better management practices, reengineer their factories to improve productivity and provide qualitative product, they will become competitive in the post-WTO scenario. The advancement in computer and telecommunication technology, rapid popularity of e-commerce, opening up of markets due to WTO, mergers and acquisitions, improved infrastructure and outsourcing of non-core areas of business have all contributed to the growth of SSIs.



CHECK YOUR PROGRESS

Q 3: State whether the following statements are True or False.

a) SSI units are located only in some particular states of India.

b) SSIs generally use labour-intensive techniques of production.

Q 4: What are the major aims of promoting the SSI sector in India? (Answer in about 40 words)

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9.5 GOVERNMENT POLICY RELATING TO SMALL SCALE INDUSTRIES

The Indian government has been trying to improve the competitiveness of small scale industries through various measures. Some of these measures are:

- To strengthen the existing technological facilities, the Government is formulating a scheme of assistance for Technology Up-gradation.
- To improve the access to latest information, automation of the Ministry of MSME Office of DC (MSME), Directorate of Industries and District Industries Centres have been taken up. SIDO knowledge portal takes this process further.
- In order to facilitate adequate flow of credit, a scheme of Credit Guarantee has been launched.

Measures have also been taken to improve infrastructure facilities and to promote marketing of products. Some of the recent policy reforms for the SME (Small and Medium Enterprise) sector in India are as follows:

- A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the MSME sector known as 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006' came into effect from October 2006. The Act replaces the concept of "Industry" with "Enterprises". In accordance with this act, SSI Registration process has been dispensed with. Now, the entrepreneur files the Entrepreneur Memorandum and gets an acknowledgement.
- The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of enterprises and also to enhance their competitiveness. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.
- Specific Funds have been established for the promotion, development and enhancing the competitiveness of these enterprises
- National Manufacturing Competitiveness Council has been set up to energise and sustain the growth of the manufacturing industry. It is a new promotional package for MSMEs, and focuses on accelerating development of clusters.
- Promotion and financial support for credit-cum-performance rating in the MSME sector in India has been taken up. This has been expected to facilitate higher and easier flow of credit from the banking sector to SMEs and this has been implemented.

- The National Commission for Enterprises in the Unorganized Sector (NCEUS) has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.
- There is significant opportunity for overseas investors to look at SMEs in India as a destination for their funds. The sector has proved its capabilities as a key player in the Indian, and consequently, the global economy. Many of today's corporates had their origins in smaller enterprises, which were able to expand in line with emerging opportunities. There are no policy restrictions on FDI in small units, except if they are in the reserved category (about 114 products).
- Under the small scale policy, equity holding by other units including foreign equity in a small scale undertaking is permissible up to 24 per cent. However, there is no bar on higher equity holding for foreign investment if the unit is willing to give up its small scale status. In case of foreign investment beyond 24 per cent in a small scale unit which manufactures small scale reserved item(s), an industrial license carrying a mandatory export obligation of 50 per cent is required to be obtained.



CHECK YOUR PROGRESS

Q 5: State whether the following statements are True or False.

a) MSMED Act was passed in 2006.

b) NCEUS was set up with a focus on the informal sector.

Q 6: Is registration of SSI units mandatory? Justify your position. (Answer in about 40 words)

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9.6 PROBLEMS OF SMALL SCALE INDUSTRIES IN INDIA AND THEIR REMEDIAL MEASURES

9.6.1 Problems faced by the Small Scale Industries

The major problems faced by this sector may be categorized as: problems in production, lack of access to timely and adequate credit, technological obsolescence, infrastructural bottlenecks, marketing constraints and a plethora of rules and regulations. These are discussed below in detail.

- The production problems faced by the SSIs include: unavailability raw materials at the actual market price, capacity utilization, and storage problems. It so often happens that due to the absence of proper access of raw materials, the SSIs have to buy them at exorbitantly high prices.
- The marketing problems arise because of the dealing in only one product, cut throat competition, adopting cost oriented method of pricing, lack of advertisement, not branding their products etc.
- The financial problems include investment risks, procurement of loan from banks and their repayment, meeting day to day expenses and the like. Many a time, SSIs have to take loans from the informal sector at a very high rate of interest to fulfill immediate credit needs.
- The labour problems include highly demanding employees, absenteeism, lack of skilled workers and transportation of workers.
- Infrastructure problems also add coal to the fire. Unless and until you have the infrastructure in its place the rest of the efforts are futile.
- Majority of the small scale units use old techniques of production and outdated machinery and equipment. Up-gradation of the

technology and achieving economies of scale is one of the major problems facing the sector. Lack of finance, lack of research & development endeavour to design low cost, indigenous technologies, and lack of proper market information about the different varieties of technologies is hindering the progress of this sector.

9.6.2 Remedial Measures

With a view to fostering the growth of MSME sector in the country, the government has taken up several initiatives. Some of them are:

- To overcome the problem of shortage of supply of the raw materials at the market price, government should adopt some suitable policy initiatives. For example, the government can fix the minimum and maximum price limits of the raw materials as well as keep the SSIs informed about the current market movements.
- ISO 9000/14001 Certification Fee Reimbursement Scheme was introduced in order to promote technological upgradation, quality improvement and better environment management by the MSEs.
- National Manufacturing Competitiveness Programme (NMCP) has been launched by the government in order to help MSMEs improve their competitiveness. This scheme aims at addressing the technology/quality upgradation needs of the sector, mainly in the public-private partnership mode.
- Small Industries Development Bank of India (SIDBI) in collaboration with United Nations-Asian Pacific Centre for Transfer of Technology (UN-APCTT) had established Technology Bureau for Small Enterprises (TBSE) to bring synergy between technology and finance in the small and medium enterprise (SME) sector. The major objectives of the company are to:
  - provide professional services for technology transfer in order to enhance market competitiveness of small and medium

enterprises and promote sustainable development.

- ❍ provide micro, small & medium enterprises information on sources of technology and means of accessing them.
- ❍ identify business partners willing to collaborate and extend support to tie up financial assistance and other requirements such as drafting agreements, obtaining various approvals and preparation of business plans required for transfer of technology.
- ❍ provides financial syndication through banks and financial institutions.

- ➢ Besides, National Small Industries Corporation Ltd. (NSIC) has taken up an initiative to enhance technology options for small scale industries.
- ➢ Small Industries Development Organization (SIDO) has set up 10 Tool Rooms and Training Centres in the country in order to assist small scale units in their technical up-gradation by providing good quality tools.
- ➢ Policy initiatives in SSI sector during 2004-05: The National Commission on Enterprises in the Unorganized/Informal Sector was set up in September 2004 to suggest measures for the improvement of flow of credit, continuous supply of raw materials, improvement of infrastructure and marketing facilities and up-gradation of technology as well as skill development. Based on the recommendations of the Commission, some steps were taken. Some of them are:
  - ❍ 85 items reserved for exclusive manufacture in the SSI sector were de-reserved in October 2004. After this provision, the total number of reserved items stood at 605.
  - ❍ To facilitate technology up-gradation and enhancing competitiveness, the investment limit (in plant and machinery) has been raised in October 2004, from Rs. 1 crore to Rs. 5 crore, in respect of 7 items of sports goods, reserved for manufacture in the small scale sector

- The Small and Medium Enterprises (SME) Fund of Rs. 10,000 crore was operationalised by the SIDBI since April 2004. Eighty per cent of the lending from this fund will be for SSI units, at interest rate of 2 per cent below the prevailing PLR of the SIDBI.
- The Reserve Bank of India enhanced the composite loan limit for the SSI sector upto Rs. 1 crore from the existing norm of Rs. 50 lakh.
- A new "Promotional Package for small enterprises" is being formulated. This would include measures to provide adequate credit, incentives for technology upgradation, infrastructural and marketing facilities, etc.



CHECK YOUR PROGRESS

Q 7: State whether the following statement is True or False :

Shortage of raw materials is one of the major problems of the SSIs.

Q 8: Fill in the blank :

Technology Bureau for Small Enterprises has been jointly set up by SIDBI and .....

Q 9: Why were the Tool Room Training Centres set up by SIDO?

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9.7 LET US SUM UP

- The definition for small-scale industrial undertakings has changed over time. Initially they were classified into two categories- those using labour power with less than 50 employees and those higher than that.
- Small and Medium Enterprises, or SME, form the large majority of industrial and service units across the world.
- The growth of the SME sector in the last ten years has been more than the growth of the industrial sector.

- There is no accepted line of distinction between cottage and small-scale industries.
- To say that small scale units are an important part of the manufacturing sector is a very big understatement. This sector has played very important in the industrial as well as economic growth of the country.



9.8 FURTHER READING

1) Agrawal, A. N. (2019). Indian Economy: Developmental Problems and Policies. New Delhi: New Age International Publishers.
2) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.
3) Kapila, U. (2003). Indian Economy since Independence. New Delhi: Academic Foundation.
4) Misra, S.K. & Puri, V.K. (2018). Indian Economy. New Delhi: Himalya Publishing House.



9.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1 : a) False b) False

Ans to Q No 2 : As per the latest norms adopted by the government in 1999, a unit is considered as an SSI unit, if its investment in fixed assets like plants and equipments either held on ownership terms, on lease or on hire purchase is less than Rs 1 crore.

Ans to Q No 3 : a) False b) True

Ans to Q No 4 : The major aims of promoting the SSI sector in India are:

- To develop this sector as a major source of employment To encourage decentralized industrial expansion,
- To ensure equitable distribution of income, and
- To mobilize capital investment and entrepreneurship skills.

Ans to Q No 5: a) True b) True

Ans to Q No 6 : No, registration of the SSI is no more mandatory. After the passing of the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006' and its coming into existence since October 2006,

the registration of SSI units has been dispensed with. Now, the entrepreneur files the Entrepreneur Memorandum and gets an acknowledgement.

Ans to Q No 7 : True

Ans to Q No 8 : Technology Bureau for Small Enterprises has been jointly set up by SIDBI and United Nations-Asian Pacific Centre for Transfer of Technology (UN-APCTT).

Ans to Q No 9 : Tool Room and Training Centres were set up by Small Industries Development Organization (SIDO) in order to assist small scale units in their technical up gradation by providing good quality tools.



9.10 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words).

Q 1 : Highlight the role of SSIs in the Indian economy.

Q 2 : Briefly discuss the measures adopted by the government for the promotion of the SSI sector.

Q 3 : Discuss the major problems faced by the SSIs.

Q 4 : Write a brief note on the policy initiatives adopted by the government in the year 2004-05 for the benefit of the SSI sector.

Essay type Questions (Answer each question in about 500 words).

Q 1 : Discuss the role played by the SSIs in the Indian economy. What are the major problems for this sector? Put forward some remedial measures.

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UNIT 10 : THE ROLE OF THE TERTIARY SECTOR IN THE INDIAN ECONOMY

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 The Service Sector

10.4 Changing Role of the Tertiary Sector in the Indian Economy

10.5 The Recent Growth of the IT and Other Service Sectors

10.6 Major Issues faced by the Service Sector

10.7 Suggestive Policy Measures

10.8 Let Us Sum Up

10.9 Further Reading

10.10 Answers to Check Your Progress

10.11 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- conceptualise the service sectors and point out its various components
- outline the importance of services sectors in Indian economy and discuss its changing role.
- describe the growing dimensions of various components of services sector.
- discuss the issues and challenges faced by services sector in India.
- put forward certain interventions required to addresses some challenges faced by the services sector in India and strengthen it for furthering its growth.

10.2 INTRODUCTION

If we carefully look at the growth trajectory of Indian economy, it is clear that India's present growth is service sector-led growth. Over the years, the share of services in Gross Domestic Product (GDP) of India has been

rising consistently whereas the share of agriculture is sharply declining and industrial growth rate has remained more or less stagnant. For instance, between 1950-51 and 2013-14 the share of Agriculture in GDP has declined from 53% to 13.9% whereas the share of services sector has increased from nearly 30% in 1950-51 to 59.9% in 2013-14. Services sector though started growing since 1980-81, this phenomenon has become more pronounced after 1990-91 i.e. after liberalisation, privatisation and globalisation. In fact, since 2000-01, services sector triggered the growth momentum of Indian economy. Almost all sectors under the umbrella of "ServicesSector" viz. trade, hotels, transport & communication, financing, insurance, real estates, community, social and personal services registered considerable growth resulting in high growth performance in Indian economy. In this backdrop it is important to look into the significance and various dimensions of services sector in Indian economy.

10.3. THE SERVICE SECTOR

The service sector is the sector which provides services. In an economic sense, services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market. (Macmillan Dictionary of modern Economics). Services are also known as intangible goods. Services are consumed at the point of production and they are usually non-transferable. In the earlier time to few years back, the service sector was the less contributing sector to GDP of India and also the employment opportunity was low. This may be the reason behind the service sector is also name as tertiary sector (tertiary means in third place). In the traditional economy, there are mainly three sectors: primary sectors, secondary and tertiary sector in the economy. Primary sector includes the activities related to agriculture and allied services, secondary sector includes industrial activities and the tertiary sector includes the services provided by trade, hotels and restaurants; transport storage and communication; financing, insurance, real estate, and business services; community, social and personal services. (As classification provided by National Accounts)



LET US KNOW

- Services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market.
- Services are non-transferable. There is no'arbitrages'i.e. the services cannot be purchasedand then resold at different price.
- In most developed countries, the service sector contributes the major portion of GDP and generates three times more employment than manufacturing sector.
- In Services sector, India world rank is 8thand GDP is $1500 billion. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.4%). Contribution of Industry and Services sector is lower than world's average 30% for Industry sector and 63% for Services sector.
- Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy.



CHECK YOUR PROGRESS

Q 1: What is meant by Services sector?

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Q 2: What is meant by the primary sector in India?

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10.4. CHANGING ROLE OF THE TERTIARY SECTOR IN THE INDIAN ECONOMY

In early years, almost in all the developing countries including India, agriculture contributed major portion of GDP. But in recent few years, the picture has been changing as service sector contributes the major portion of GDP. Thus,the service sector has experienced a rapid shift in generating both income and employment all over the world. In India, growth has been shifted from agriculture to service sector, not in traditional pattern i.e., from agriculture to industry and then industry to service sector. Thus, current growth of India is service led growth. This type of growth path can be termed as the services sector revolution. Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector.

The role of service sector has changed from lowest contributor to highest contributor to India's national income. This can be evaluated with the following discussion:

Contribution to GDP:In the early years, the share of service sector to Indian Gross Domestic Product was very negligible. But in recent years the share of services sector to GDP of India has been increasing. The share of tertiary sector to India's GDP has increased from almost one third of total GDP in 1950-51 to 57% in 2009-10. The following table shows this changing share of services sector India's GDP.

Table 10.1: Shares of Services sector to India's GDP (in %)

Year	1950	1960	1970	1980	1990	2000	2010-11	2013-14	2014-15
Services sector	29.8	32.8	35.9	40.3	45.7	53.7	57.48	59.93	50.1

Source:

i) ADB Economics Working Paper Series No. 352: The Services Sector in India; June 2013.

ii) Planning Commission's Indian Economy Related Table 2; December 23,2014.

Rapid growth of service sector: The higher Compound Annual Growth Rate (CAGR) attained by India in recent years can be taken as the result of expansion of services sector in India.

Horizontally higher share of services in GSDP (Gross State Domestic Product:In recent years, the services sector has significantly contributed to Gross State Domestic Product of different states and UTs (Union Territories). Moreover, Tripura, Nagaland, West Bengal, Maharashtra, Bihar, Tamil Nadu, Kerala, Delhi and Chandigarh has recorded a higher share of 55.7% to GSDP than other remaining states and UTs. Thus, India has witnessed a horizontally higher share of services sector in GSDP.

Employment generation of services sector:In India, though the primary sector contributes highest employment since ancient time till date, the percentage increase in the employment generation is highest in the service sector. The growth of the employment generation in the primary sector has declined from 64.75% in 1993-94 to 53.2% in 2009-2010.

According to statistics provided by the NSSO in 2009-10, on the basis of usually working persons in the primary and subsidiary statuses, for every 1000 people employed in rural areas ,679 are employed in the agriculture sector, 241 are employed in the services sector including construction and only 80 persons employed in industrial sector in India. While in the urban areas of India, among each 1000 people, only 75 people are employed in agriculture sector, 683 employed in the service sector and 242 employed in the industrial sector.

Contribution to India's services trade: The service sector plays an important role in India's trade. The share of services exports in the world export has been increasing from 0.6% in 1990 to 3.3% in 2011. Thus, in recent years, India is moving towards a service led export growth. The merchandised and services export of India has grown from 22.2% in 2004-05 to 25.3% in 2008-09. Services growth slowed down in 2008-09 as a consequence of global Financial Crisis, but it recovered rapidly in 2010-11. According to the data provided by RBI, the India's services export grew at a CAGR (Cumulative Annual Growth Rate) of 20.6% during the period of 2004-05 to 2010-11. CAGR of financial services were higher with the rate

Contribution towards human development: Services sector has provided ample scope for human development as it renders many important and valuable services like education facilities, health services, IT and ITeS, tourisms, skill development etc.These services are responsible for the development of the economy through providing empowerment, ensuring high quality of living and formation of human capital. Thus, the services sector contributes towards human development.

Role in infrastructure development and communication services: The developing countries like India are not infrastructurally compact. Therefore, infrastructural development plays a major role in development of such economies. Transportation, communication facilities are major infrastructural facilities. The contribution of transport, storage and communication services to India's GDP at factor cost is 7.1% in 2011-12. Thus, the role of services sector towards infrastructure development via communication services and transportation services in developing countries is very significant.

Role in growth of IT and ITeS: The recent era has witnessed a sharp rise in IT and IT enabled services (ITeS) in India. IT and ITeS sector have introduced India as an image of young and resilient global power.IT and ITeS industry has four major parts as IT services, Business Process Outsourcing (BPO), engineering services and Research and Development (R&D). Among these four components, Indian ITeS and BPO have proved its superiority, sustained cost advantage and fundamentally powered value propositions in the global market. The IT and ITeS industry have established as a full-fledged industry in India. As per the data provided by NASSOCOM, IT and BPO sector (excluding hardware) s' revenue is US $95.2 billion in 2012-13. These sectors have also generated direct employment and indirect employment of nearly 2.8 billion and 8.9 billion respectively in 2012-13.

Role in development of social services: The growth of service sector also generates, expands and develops some social services like sports, cultural services etc. the role of sports in the creation of human capital is very important as it provides physical fitness, uniqueness, bonding (both community and international bonding) etc. Now-a-days, the sports

are important for national identity and togetherness. Cultural services includeentertainments, recreational activities, radio and television broadcasting and other cultural services like art, spiritual believes, customs etc. For promoting and preserving all forms of art and culture, the Government of India has allocated a total of Rs. 3555 crores in the Eleventh Plan. The cultural services have emerged as not only a component of growth and job creation but also as a vehicle of cultural identity. In 2010, India have exported creative services worth of US $ 4 billion at a CAGR of 26%. Moreover, the services sector plays an important role in promoting some social services beneficial to the society.

Supports to other sectors: The service sector provide supports to agricultural and industrial sectors through financial services, transport services, software services, communication services, services related to storage facility and distribution etc. Without the interlinkages, cooperation and support among the various sectors, no economy can grow.



CHECK YOUR PROGRESS

Q 3: Which sector of the Indian Economy contributes the most?

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Q 4: What is the difference between the share of service sector to the India's GDP from 1951 to 2014-15?

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10.5. THE RECENT GROWTH OF THE IT AND OTHER SERVICE SECTORS

- **Tourism including Hotels and Restaurants:** Indian tourism is ranked 11th in the Asia Pacific region and 62nd in the world. According to the travel and Tourism Competitiveness report of 2009 by the 'World Economic Forum', India had been ranked 14th for best tourist destination

and for its natural resources, 24th for its cultural resources. In India, tourism is the largest industry. Its share to India's GDP is 6.23%. It is an employment generating sector as it proves a lot of services like hotelling, tourist transportation cabs, hospitality services etc. It generates nearly 8.78% of the total employment opportunities of India. In 2008, the revenue generated through the tourism was about US$275.5 billion. The tourism sector is substantial and vibrant in nature. It is one the most profitable business in India. it is considered as the growth as well as export growth engine in India. This sector witnessed significant growth in recent years.The CAGR of foreign tourist arrivals (FTA) was 7.2% in 2006. In the same year, the CAGR of foreign exchange earnings (FEE) was 14.1%. The FTAs in 2009 and 2010 were 5.17 million and 5.78 million respectively. The growth of FTAs was 11.8%in the year 2010 and it was comparatively much higher than the world's growth of 6.5%. The FEEs of Indian tourism were Rs. 64889 and Rs. 54960 inn 2009 and 2010 respectively.

Health tourism is another important sub group under tourism in India. India has the scope of exploring this service in upcoming years. The India is a better destination for health tourism for cost-effective health care services, skilled and experienced health care experts and professionals, better hospitality of paramedical staffs, strong IT sector etc. Now-a-days, India's traditional systems of health care systems such as Ayurveda, Yoga, Siddha, Naturopathy, spirituality are appreciated and adopted by foreigners.

Though India's tourism is an emerging ad fast growing service sector in India, but has faced the ill-impact of slowdown of Indian Economy. The FTAs grew a mere 2.12% in the first half of calendar year 2019 which was the lowest for the comparable period in the last four years. The FTAs is 6.08 million during the period January to July, 2019. This is marginally increase as the FTA s during Jan -July, 2018 was nearly 5.96 million. The FEEs also showed a marginal increase to Rs. 1,16,872 during Jan-July, 2019 from Rs. 1,12,481 crores during Jan-July, 2018. In dollar terms, this marginal increase reported a negative growth of 2% at $16.75 billion.

- **Services related to Transportation and Communication:** Transportation is one of the major services in India. The share of Transportation (including railway services) in GDP at factor cost was 6.6 % in 2006-07. In 2011-12, it was 6.2% only. Similarly, the Indian telecom sector has shown a rapid growth during the last few years. This sector is going through many reforms and initiatives introduced by the department of telecommunications. India's position is second in respect of telecommunication network. In 2015-16, India has crossed the landmark of 1 billion telephone subscribers and in the year 2017, this number is increased to 1195 million. Please note that we have already discussed about Transport and Communication services in Unit 3 in block 1. As such, we shall avoid any detail discussion on these two areas here. However, for you benefit, you are advised to keep updated on the recent scenario of these two sectors.

- **Real Estate and Housing Services:** Real estate is one of the major components of services sector in India. Real estate sector deals with housing services. This sector provides many job opportunities and solve the problem of unemployment to some extent. The jobs offered by this sector are construction workers, builders, architects, engineers, interior decorators, plumber, painters, carpenters, property consultant etc. thus, this sector is considered as a employment intensive sector in India. Again, this sector is dealing with the income generating activities as housing can act as asset and it has significant leveraging effect in order to support and supplement other means of income generation.

  Real estate sector includes ownership and dwelling accounted for 7.6% share in India's overall GVA (Gross Value Added) in 2015-16. The growth of this sector has been reducing from 7.5% in 2013-14 to 4.5% in 2015-16. The reason behind may be the ownership and dwelling segment having a share of 6.8% in overall GVA decreasing 7.1% in 2013-14 to 3.2% in 2015-16. The residential sales are also reduced to a five-year low about 2,45,000 units in 2016 across eight cities in India.

- **IT-BPM Services:** The IT-BPM (Information Technology- Business Process Management) is an important emerging sector in India. In 2016,

global IT-BPM market including hardware was US$ 2.2 trillion and excluding hardware US$ 1.2 trillion.The Indian IT-BPM industry is a global powerhouse and its impact on India and world is unprecedented. India pioneered the offshoring model and is today seen as the partner of choice for technology and business solution. This sector recorded a six- fold growth in terms of revenue during the last decade. It is also an employment intensive - sector and it provides more than 3.9 million jobs to the people. It is also an employment supporting sector as it creates employment in other sectors like transportation, hotels, restaurants, infrastructure, security etc. Indian IT-BPM industry comprises over 16000 firms ranging from multibillion-dollar firms to start -ups, many Multi-National Companies (MNCs) including over 4,750 start-ups making India the world's 3rd largest start-up ecosystem. The start-up ecosystem comprises firms catering to mature verticals (e- commerce, aggregators), emerging verticals (fintech, edutech, healthtech etc) and technology specialists around cloud, Internet of Things (IoT), Machine learning, artificial intelligence, robotics, 3D printing etc. US is the major market of India for IT-BPM services followed by UK, Europe (excluding UK) and Asia. As per NASSCOM's estimates, India's total revenue (export and domestic) of the IT-BPM sector including and excluding hardware is expected to touch US$ 154 billion and US$ 140 billion with growths of 7.8% and 8.1% respectively in 2016-17. The domestic market including hardware and excluding e-commerce is growing at 8.5% to reach US$38 billion and excluding hardware and e-commerce is growing at 10.4% to reach US$ 24 billion.

India's software exports were growing robustly at 27 to 38 % from 2002-03 to 2007-08. But this growth is slowed down in recent years. As per RBI's data, the software exports fell by 0.7% to US$ 73.7 billion compared to US 74.2 billion in 2015-16.

- **Construction Services:** The construction service is one of the most important and emerging sectors in India. this sector is gaining importance over the years as it is considered as an important indicator of growth and development. It creates a lot of investment opportunities and

accelerates the production capacity of an economy. The share of it to the India's GDP at factor cost was 6% in 2000-01. In 2008-09, it was8.2% and in 2011-12, it was 8.2%. The construction service includes construction of bridges, roads, buildings, bridges, dams etc. the growth of it decelerated from 5% in 2015-16 to 1.7% in 2016-17. This sector was given the industry status in 2000. The government takes many steps to promote this industry. As a result of these steps, more private ownership of Build- Operator -Transfer (BOT), Build- Operate -Own - Transfer (BOOT) and Build-Operate-Lease-Transfer (BOLT) projects have been taken up in this sector.

- **Banking Services:** Within the services sector financing, insurance, real estate and business sectors are most dynamic sector in the economy in recent years. The role of banks especially in developing country is important, crucial as well as critical for overall development of the economy of the country. Indian banking system is very vibrant and has a wide scale of operation. It consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1562 urban cooperatives banks and 94384 rural cooperative banks. Banking sector is one of the fastest growing sectors in the country. This is evident from the fact that total banking sector assets including public and private sector banks have increased at compound annual growth rate (CAGR) of 6 percent to US $2.3 trillion during 2013-14. The surge in credit provided by the banking sector at large has contributed a lot to the high growth of performance of Indian economy during the period 2003-2008. During this period, total credit grew at around 20 percent year to year basis which however plummeted to 15 percent in 2014 basically due to world financial crisis in 2008-1. Since 2014, credit growth has been slow and went down to around 7 percent on an average in 2016-17.

  While discussing the banking sector special mention must be made to the public sector banking in India. PSB was ushered into in India when State Bank of India came into being in 1955. After that, in 1969, 14 major private banks were nationalised. Again in 1980, other 6 private banks

were nationalised. In the beginning there were 8000 branches of banks with total deposits of Rs. 5000 crores, but now, there are 90,000 bank branches with total deposit of Rs. 85,00,000 crores in India, while credit extended by the public sector banks have gone up to Rs. 60,00,000 crores.

10.6 MAJOR ISSUES FACED BY THE SERVICE SECTOR

- Wage inequality is one of the major challenges in services sector. the skilled and efficient workers in the services sector get higher wages as compared to the other sectors of the economy. But low skilled workers have faced disadvantage as low income.
- The different sub sectors of services sectors are impacted differently by the demonetisation. The tourism sector is not much affected by the demonetisation.Bank credit by commercial Banks also increased after demonetisation. There is fall in property registration in post-demonetisation. But there was not much change in property prices. It has positively impacted upon the sub-sectors like IT industry, insurance sectors etc. thus, the impact of demonetisation on services sector is mixed and temporary in nature.
- The Goods and Services Tax (GST) launched on July 1, 2017 in India. It has significant impact on the growth of services sector in India. The reason is that it affects the valuation of the service categories, their operations in each state through multiple returns filing, and stringent tax compliance. There are some of the major challenges faced by the services sector under GST like multiple tax slabs (5 percent, 12 percent, 18 percent and 28 percent), multiple registration of place of business, filing multiple return (filing returns three times in a month) etc.GST has helped the services sector in many ways like avoiding confusion as pre-GST, both Central and State Govt. had the right to collect the tax which was leading to confusion in finding out to whom the tax is to be paid for services like software, works contract etc. resulting in disputes between Central and State Governments. However, the major difficulty is

registration of Place of Business as agents will have to register in all states that they operate in and file in each of them in the GST regime. There are also issues of GST network, as, in the GST network, not more than 100 branches of Bank can register. In the case of Healthcare Services, while there are no taxes on health care services, the input tax credits are not available for the very reason that healthcare services are exempt from GST.

- There are also some early results of GST affecting services with 24 states abolishing check posts while others are in the process, resulting in reduction in transportation cost, fuel use and fall in congestion. There has also been better tax compliance with 71 lakh central and state taxpayers having migrated to the Goods and Services Tax (GST) system and 15 lakhs new tax payers having been registered.
- In case of construction of Greenfield Airports, there are many factors that affect the construction such as acquisition of land, availability of mandatory clearances, financial closure etc by the individual operators.
- There are many challenges faced by the tourism sector in India. the FTAs decline in the first half of 2019. The main reason behind this are as follows:
  - Brexit in the US.
  - Recession fears in large parts of Europe and the US.
  - Heightened tensions between India and Pakistan.
  - Shutdown of Pakistan air space for India-bound flights led to an increase in travel time and air fare.
  - High Visa charges.
  - Strong competition from tourist destinations such as Sri Lanka, Thailand, Malaysia, Vietnam etc.
- One of the main issues of the services sector is that the majority of services are operate under unorganised sector. thus, the actual estimation is not easy. Again, as the majority of jobs are confined to the unorganised sector, there is no job security, no uniform salary and wages etc.

- It is costlier for start-ups in the services sector in India as majority of labour force in India are not properly skilled.
- In India, the operating costs of a shipping company are high. Thus, high taxes are to be paid in India than overseas and therefore foreign shipping companies do not prefer to flag their ships in India.
- There is an issue of terms of shipment with a majority of India's bulk imports being done on C&F/CIF basis despite the policy of imports on FoB basis and the Indian companies not even getting the benefit of ROFR in these trades with the result that the share of Indian flag vessels in India's bulk imports is limited.

10.7 SUGGESTIVE POLICY MEASURES

Some of the policy suggestions to improve the performance of the tourism, real estate and banking sectorsinclude the following:

- **Tourism:** There is need to make India Tourism friendly and Tourist safe Country. There is an urgent need to create a special Tourist Protection force besides maintaining cleanliness hygiene and ambience of acceptable standards. Good Tourism Infrastructure including beautifying riversides passing the middle of cities, providing accommodation for tourists by increasing the number of hotel rooms and improving infrastructure in important tourist sites by privatization of some areas of infrastructure. There is also a need for further improvement in E-Visas and Immigration procedures. India is presently emerged as medical hub with lots of sophistication compared to many developing countries. Therefore, there is another area for promoting Medical Tourism by facilitating imports for hospitals providing medical tourism and providing a package of services for medical tourists including state of the art medical facilities, ambulance services at airports, airlifting of medical tourists to hospitals by helicopters and fast track clearance of medical visas, immigration and other formalities.
- **Real Estate Services:** As we all know that Housing and Infrastructure sectors are very important as they have direct impact on social and economic development generating varied employment opportunities

ranging from unskilled, semi-skilled and skilled labourers to professionals and experts. Some of the issues and challenges affecting growth in real estate and housing sector include the delay in approvals of permits; high land registration costs including stamp duty; rising debt levels and NPAs; lack of skilled workforce; need to implement the single -window clearance for construction permits in all states on top priority; higher risk provisioning assigned to real estate sector by the RBI and dwindling profits in the real estate sector; GST Issues, like all components of construction except bricks being charged at the highest slab of 28% GST which needs a relook; delay in payment for Government projects; funding problems for land acquisition; and need for new financing instruments including expanding the Secondary Market and considering the feasibility of Covered Bonds. In this context there is an urgent need to revitalise this sector on priority basis so that India can arrest unemployment to a great extent.

- **Banking sector:** As noted above India's banking sector is one of the vibrant sectors in the umbrella of services sector. The major issue with the banking sector today is the growing volume of Non-performing Assets (NPAs) known as bad loans and inefficiency in bank management especially with the PSBs. In order to strengthen the banking sector, a slew a measures have been taken recently of which the prominent one is the merger of the banks. However, there are two sides of opinion about this mega bank merger policy. If you are interested, you can browse through the Net or read leading financial newspapers to learn about the different debates into it.



10.8 LET US SUM UP

- The service sector is the sector which provides services. In an economic sense, services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market. Services are consumed at the point of production and they are usually non-transferable.

- In the traditional economy, there are mainly three sectors: primary sectors, secondary and tertiary sector in the economy. Primary sector includes the activities related to agriculture and allied services, secondary sector includes industrial activities and the tertiary sector includes the services provided by trade, hotels and restaurants; transport storage and communication; financing, insurance, real estate, and business services; community, social and personal services.
- Over the years, the share of services in Gross Domestic Product (GDP) of India has been rising consistently whereas the share of agriculture is sharply declining and industrial growth rate has remained more or less stagnant. For instance, between 1950-51 and 2013-14 the share of Agriculture in GDP has declined from 53% to 13.9% whereas the share of services sector has increased from nearly 30% in 1950-51 to 59.9% in 2013-14.
- Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector.
- There are many challenges faced by the service sector of India. These are: the majority of services are operating under unorganised sector, wage inequality, high cost for start ups in the service industry, impact of GST and demonetisation, impact of international relations and issues etc.
- Some concerted steps should be taken by the Government of India for upgradation of services sector of India. There are some other services like Super Specialty healthcare, Satellite Mapping, Professional services etc where India has high potential to grow and India has the necessary competence to provide them cost efficiently. The health tourism can be good choice where India has a lot of potentials.



10.9 FURTHER READING

1) Dhar, P.K. (2018). *Indian Economy: Its Growing Dimension.* New Delhi: Kalyani Publishers.

2) Mukherjee, D. (2019). *Indian Economy Since Independence.* Kolkata: New Central Book Agency (p) Ltd.
3) Kapila, U. (2016). *Indian Economy Since Independence.* New Delhi: Academic Foundation
4) Malayala Manoroma. (2018). *Manorama yearbook 2018.*
5) Pratiyogita Darpan, Extra Issue on General Studies Indian Economy 2019.

10.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The service sector is the sector which provides services.

Ans to Q No 2: Primary sector includes the activities related to agriculture and allied services.

Ans to Q No 3: Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector.

Ans to Q No 4: The share of tertiary sector to India's GDP has increased from almost one third of total GDP in 1950-51 to 50.1% in 2014-15.

10.12 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: What is service sector? Give examples.

Q 2: What is arbitrage? Is arbitrage possible with services?

Q 3: What is the recent share of service sector to India's GDP?

Q 4: Discuss the recent growth of various sub sectors of service sector in India.

Q 5: What are the major challenges faced by the Indian service sector? Explain.

Long Questions (Answer each question in about 300-500 words)

Q 1: Compare the share of three sectors of India from the time of Independence to till date.

Q 2: Discuss the major challenges in the tourism sector in India?

Q 3: Discuss certain measures betterment of tourism sector in India?

Q 4: Do you think that there is any potential for health tourism in India? If yes, explain.

Q 5: Discuss about the IT-BPM industry in India.

Q 6: Are you aware of the changes that have taken place in the Indian service sector due to the GST?

Q 7: What is the impact of demonetisation on service sector in India? Discuss briefly.

Q 8: What do you suggest for the improvement of Indian service sector?

Q 9: Explain the role of banking sector in the growth of services sector in India?

Q 10: State three cases for and against merger of Public Sector Banks in India?

Q 11: Explain the significance of tourism sector in the overall growth of services sector in India? Suggest a few policies for improvement of tourism sector in India.

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UNIT 11 : THE FINANCIAL SECTOR IN INDIA

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Commercial Banks in India

11.3.1 Changing Role of the Commercial Banks

11.4 Regional Rural Banks

11.4.1 Progress of Regional Rural Banks

11.4.2 Role of Regional Rural Banks in the Indian Economy

11.5 Reserve Bank of India

11.5.1 Developmental Role of Reserve Bank of India

11.6 Role of Non Banking Financial Institutions (NBFIs) in the Indian Economy

11.7 The Major Reforms initiated in the Financial Market

11.8 Let Us Sum Up

11.9 Further Reading

11.10 Answers to Check Your Progress

11.11 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- derive the changing role of commercial bank in pre nationalisation and post nationalisation period.
- discuss the role of Regional Rural Bank.
- discuss developmental role of Reserve Bank of India.
- know the role Non-banking financial institution (NBFI).
- discuss the major reforms initiated in Financial Market.

11.2 INTRODUCTION

In this unit, we shall discuss about the financial sector in India. The word 'finance' means funds of monetary resources required by various

entities like individual, business unit, corporate and government. Individuals and households need funds for meeting their day to day current requirement related to consumption and investment. The business unit and corporate require fund to pay wages, salaries, buy raw material, machineries etc. The government require a huge amount of fund so as to meet its expenditure for routine maintenance works like law and order, defence, social service etc and also to finance its development programmes. Under the financial sector commercial bank plays a very important role in the development of Indian Economy. Again Regional Rural bank also plays very important role in providing rural finance in Indian Economy.

In this unit, we also shall discuss about developmental role of Reserve Bank of India and the role of Non Bank Financial sector and also the major reforms initiated in financial market of Indian Economy.

11.3 COMMERCIAL BANKS IN INDIA

The beginning of commercial banking in India was made in the seventeenth century and before that indigenous banker in the form of seths, Mahajans etc. The systematic form of commercial banks was initiated in the early part of nineteenth century with the establishment of Presidency Banks. In the year 1913 total of 18 such banks were functioning.The three Presidency Bank merged and Imperial Bank of India (now known as State Bank of India)was established in 1920. In 1949 The Banking Regulation Act was implemented and Reserve Bank of India was given extensive regulatory power over the commercial bank. In the beginning of 1stPlanning (150-51) there were nearly 430 commercial banks operated in India. But the number of such banks declined in the subsequent period due to amalgamation of small banks with big banks.In 1969, 14 major commercial bank was nationalised and after that in 1980, 6 another commercial bank were nationalised. At present there are 27 such nationalised banks(including SBI group) working in India. With the introduction of banking sector reforms the composition of banking system in India was recorded a considerable change. At present there are 381 scheduled and two non-scheduled banks operated in India.

11.3.1 Changing Role of the Commercial Banks

From the beginning, Commercial Banks are playing an important role in the economic development in India. The Commercial Bank of India plays important role especially in the mobilisation of resources, Supply of rural credit, supply of credit to small scale industries etc. Commercial banks are rendering valuable services with mobilising small saving and financial resources from different areas. These banks also contributed in the development of banking habit among the people through the extensive branch banking, prompt services and sustained publicity. Before nationalisation, commercial banks did not show much interest in the development of small scale industries of the country .But after the nationalisation of 14 commercial bank in July 1969, these banks has taken some steps to extend credit to the small scale industries to some extent.In recent years the amount of loan extended by the commercial banks to the small scale industries of the country has increased in considerable proportion. After nationalisation the public sector banks started to extend liberal credit facilities to the priority sectors which include agriculture, small scale industries and exporters.

They now also give a lot of importance to their rural customers. They are even willing to help them and serve regularly the banking needs country-side India.. The changing role commercial banks can be outlined below:

Better Customer service: Before 1991, the overall service of India was verypoor. There were very long queues(lines) to receive payment for cheques and to deposit money. Banks in India have now become very customer and service focus. Their service has become quick, efficient and customer friendly.

Mobile Banking: Under Mobile Banking service, customers can easily carry out major banking transactions by simply using their cell-phones or mobiles.

Bank on Wheels: The bank on wheels was introduced in

the north east region of India .Under the Scheme , Banking serviced are made accessible to people staying in the remote areas of India. Portfolio Management: In portfolio management banks do all the investment work of their clients. Banks invest their client's money in shares, debentures, fixed deposits etc.

Issue of Electro- Magnetic Cards: Banks in India have already started issuing electromagnetic cards to their customers. These cardshelpto carry out cashless transactions, make an online purchase, avail ATM facility, book a railway ticket etc.Banks issue many type electromagnetic card such as credit card, debit card, ***charge card, Smart Card, Kisan Credit card*** etc.



Charge cards are uses to spends money up to a certain limit for a month.

Smarts Cars are currently being used as an alternative to avail public transport services

Kisan Credit card are used for the benefit of the rural population of India

Internet Banking: Internet banking is also called as E-Banking or net Banking .Here the customer can do Banking transactions through the medium of the internet or World Wide Web (www). The customer needs not to visit the bank's branch. Through this facility the customer can easily enquiry about bank balance, transfer fund etc.

The period since bank nationalisation is of great importance from the point of view of banking development as the size and the reach of the banking system have registered spectacular progress in this period. Opening of rural branches has improved mobilisation of saving in the rural sector. Presently, rural deposit accounts for about 15% of total deposits. Since bank nationalisation in this country, priority sector credit has increased from about14% of total bank credit to around 36%. Over the years development of banking has been faster in relatively less developed region of the country and as a result regional disparities have declined and the concentration of banking business is now less. Considering overall situation it may be argued that since in the later post nationalisation phase overall profitability of the banks was either low or even negative and their non-performing loans both as a percentage of total advances and as a percentage of assets were fairly high, their financial position was extremely weak. This situation improves only after

implementation of various reform measures during the 1990's. Apart From certain limitations, performance of commercial bank in the post nationalisation phase was definitely impressive.

11.4 REGIONAL RURAL BANKS

In order to support the rural banking sector in recent years, Regional Rural Banks has been set up all over India with the objective of meeting the credit needs of the weaker Section of the society. These institution are playing a very important role for all round development of rural areas of the country. Regional Rural banks have been receiving a high degree of importance in the system of rural credit. Basically Reserve bank of India with the central Government, State government after considering the gross absence of banking facilities in rural areas, had set up Regional Rural Bank in the late seventies with the objective of improving the economic status of the rural people as well as to encourage saving among the rural masses. As Per the recommendations of the working group of rural bank , the regional rural bank were established in 1975 for supplementing the commercial banks and co-operatives in supplying rural credit. The main objective of regional rural banks in Indian is to advance credit and other facilities, especially to small and marginal farmer, agricultural labour, and small entrepreneurs in order to develop the different sectors of rural areas of the country. At the initial stage, five regional banks were established on 1975 (two in Uttar Pradesh, one in Jaipur,one in Haryana and one in West Bengal)under the sponsorship of State Bank of India, The Syndicate Bank, United Commercial Bank, Punjab National Bank and United Bank of India Respectively. All these five Banks have an authorised capital of Rs 1 crore and paid up capital of Rs. 25 lakhs. The Central Government have taken 50% of the share capital, whereas the State Government have taken 15% and the rest 35% was taken by the Commercial Bank. The reserve bank of India also allows this bank to maintain the CRR(cash reserve ratio) at 3% and SLR(statutory liquidity ratio) at 25%.

11.4.1 Progress of Regional Rural Banks

After the establishment, the regional Rural Banks have extended their network throughout the country to a considerable extent. At Present there are 196 regional rural banks operating in India with nearly 14,484 branches.The presence of RRBs shows wide variation both across States and sponsor banks. Although RRBs are spread over twenty-six States, they have most of their presence in seven States, i.e., Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharastra, Rajasthan and Uttar Pradesh. Uttar Pradesh has the highest number of RRBs, i.e., thirtysix and Kerala has got only two amongst the major States of the country . The north-eastern States like Manipur, Meghalya, Mizoram and Nagaland have got only one RRB. Like-wise, seven sponsor banks amongst twenty-eight, viz., Bank of Baroda, Bank of India, Central Bank of India, Punjab National Bank, State Bank of India, United Bank of India and UCO bank account for more than three fifths of the RRBs. More than 160 RRBs earned profit in March 2004 while 150 RRBs were found to be earning profits for three consecutive years beginning with the year 2000-01. More than half of these loss-making RRBs are found to be operating in four States, i.e., Bihar, Madhya Pradesh, Maharastra and Orissa. Seen at the level of sponsor banks, three banks, i.e., Bank of India, Central Bank of India and State Bank of India accounted for more than half of the loss making RRBs.

Till 1996 these RRBs has been lending nearly 1500 crore to the rural people and more than 90% of the loan has been advances to weaker section of the society. During the last 20 years RRB have been participating actively in various programmes designed for providing credit assistance to identified beneficiaries included under the new 20 point programmes, IRDP and other programmes designed for scheduled caste and tribes. RRB's are also advancing loan to weaker section and physically handicapped persons under differential rate of industrial scheme.

The RRBs, over the years have made impressive improvement on Various business indicators. For instance, deposits of RRBs have grown by 18 times and advances by 13 times between 1980 and 1990.Between 1990 and 2004, deposits and advances grew by 14 times and 7 times, respectively. Between the year 2000 and 2004,loans disbursed by RRBs more than doubled reflecting the efforts taken by the banks6 to improve credit flow to the rural sector. The average per branch advances also increased from Rs.25 lakh in March 1990 to Rs.154 lakh in March 2003. When one considers the deployment of credit relative to the mobilisation of resources, the credit-deposit (C-D) ratio of RRBs were more than 100 per cent during the first decade of their operations up to 1987. Though the C-D ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 % in March 2000 to 44.5 % in March 2004 .

In order to make Financial Inclusion Plan of the government effective and to expand the penetration of banking network in unbanked and under-banked rural areas, regional rural banks (RRBs) also worked out its branch expansion plan for 2011-12 and 2012-13 with 10 per cent increase over the previous year. Accordingly, RRBs could open 913 branches in 2011-12 against its target of opening 1247 branches. This figure compares favorably with that of opening of 521 branches in 2010-11 and 299 branches in 2009-10. For 2012-13, a target of opening 1845 new branches has also been set.

11.4.2 Role of Regional Rural Banks in the Indian Economy

Regional Rural Banks have made commendable progress in advancing various types of loan to the weaker and under privileged section of the rural society. As per recent RBI report, "The RRBs have fared well in achieving the objective of providing access to weaker sections of the society to institutional credit but the recovery position on the whole is not satisfactory."

The working of RRBs was evaluated by the Narasimham Committee on the Financial System. Although RRBs were set up in order to provide a low cost alternative to the operation of commercial bank branches, particularly in the rural areas but the functioning of RRBs was not up to the mark. The Committee mentioned three basic problems of RRBs:

- RRBs have a low earning capacity due to so many restrictions placed on the business undertaken by these banks;
- With the recent award of a tribunal the wages and salary scales of RRBs would be similar to that of commercial banks and thus the very idea of low cost alternative to the operation of commercial bank has been nullified; and
- The very area of operations of RRBs is also being utilised by the sponsoring banks by running their own rural branches leading to certain anomalies like duplication of services and expenditures on control and administration.

But there are some inherent factors which are very much responsible for this non-viable nature of RRBs. These include:

- RRBs can set up its branches mostly in unbalanced and under-banked areas;
- The lending operations of RRBs are very much confined to target group composed of small borrowers of rural and semi-urban areas; and
- The rate of interest charged by RRBs on their loan are comparatively lower.

Regional Rural Banks have also established functional superiority over other commercial banks of the country. This superiority of RRBs has been brought out by the share of deposits contributed by these branch offices of RRBs in different states. The share of deposits of these branches of RRBs in December, 1991 in a state like Uttar Pradesh was 25.7 per cent in comparison to that of only 12.4 per cent for other Scheduled Commercial Banks.

This achievement is noteworthy if we consider that the

number of branches of RRBs (1,193) was even lower than that of other scheduled commercial banks (1,361). Moreover, the share of deposits of RRBs in Haryana was also higher than other scheduled commercial banks which had comparatively double the number of branches.

Another important matter that has also been noticed is that most of the branches of RRBs are opened in unbanked centers and thus the deposits mobilised by them are fresh deposits and are not diverted from the deposits per branch of RRBs established before 1980 is uniformly higher in almost all the states of the country. In respect of credit operations, RRBs were successful in identifying the target groups and also in meeting their credit requirements.

BasicallyRRBs plays a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labors, and even small entrepreneurs.



CHECK YOUR PROGRESS

Q 1: Describe about the changing role of commercial bank in India. (Answer in about 60 words)

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Q 2: Describe about the role of RRB in Indian Economy (Answer in about 60 words)

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11.5 RESERVE BANK OF INDIA

On the 1st April, 1935 Reserve Bank of India (RBI) was established as per the Reserve Bank of India Act 1934 as a shareholder's Bank. At first this bank was established as a joint stock bank with a share capital of Rs 5 crore. But in 1949 the Reserve Bank of India was nationalised by Government as per RBI act 1948 and transferred to public owenship. So, after nationalisation RBI was working as an apex institution and central bank of the country.

Functions: The Reserve Bank of India as an apex institution performing various functions related to monetary management, banking operations, foreign exchange, developmental work and research problem of the economy. Some important functions of RBI are:

Note Issue: Being a cental Bank of the country the RBI entrusted with the sole authority to issue currency notes after keeping a minimum reserve including gold.

Banker to Government: The RBI is working as banker of the Government and therefore all the funds of both central and state government are kept with it. It acts as an agent of the Government and manages all the government expenditure and public debt.

Banker's Bank: RBI regulates the whole banking system of the country keeping a certain percentage as reserve. Therefore RBI is called Banker's Bank.

Credit control: The RBI has the sole power to control credit created by commercial bank by its various measures. It also controls the total volume of money supply in the economy.

Custodian of foreign exchange reserve: The RBI is entrusted with the sole authority to determine exchange rate and maintain the exchange reserve.

Developmental functions: The RBI also working as a developmental agency by developing various organisations like Agricultural Refinance development corporation, NABARD, IDBI etc.

11.5.1 Developmental Role of Reserve Bank of India

With the increase in importance of economic development at the national level, new demands were made on the RBI and its functions increased steadily. Today, RBI performs various developmental and promotional functions. Earlier, these functions were outside the purview of the central bank. In other words, the RBI's functions are now not confined merely to the exercise of restrictive controls over the money market. Now, it attempts to mobilise saving through banks and other financial institutions for productive purposes. A large portion of financial system in India yet unorganised. Under this unorganised sector, the indigenous banker, money lender operates and RBI has no control over their activities. The working of these traditional money lending institutions is very defective and their activities are exclusively motivated by the desire to exploit borrowers. For this reason, RBI has been putting pressure on commercial bank to open their branches in semi-urban and rural areas. This ultimately reduces the dependencies of the people on indigenous banker and money lender. In order to adjust their activities according to the requirement of the customers especially in rural areas, commercial bank have done several innovation in banking practices. A major hindrance of banking development in India was frequent bank failure due to improper mobilisation of deposits. Therefore RBI with the objective of protecting depositor has established Deposit Insurance Corporation of India 1962. In order to mobilise saving the RBI played an active role in the establishment of UTI (united Trust of India) in 1964.

Since India is a under-developed country which mainly depend on agriculture, therefore the development of institutional agricultural credit has been a major function of RBI. In fact, this has been the RBI's statutory obligation ever since it was established. In the year 1963 RBI established the Agriculture Refinance Development Corporation (ADRC) . After that RBI established National Bank for

Agriculture and Rural Development(NABARD). Almost half of the share capital of NABARD has been provided by RBI. Again, in the backward country like India industrial finance for the development of industrialisation is very important. Normally commercial bank avoid giving long term credit. But for meeting the financial requirement of the industry there was need for specialised institution for industrial finance. Therefore, RBI with the initiatives of central government was actively participated in theestablishment of specialised institutions of industrial finance like Industrial Finance Corporation of India(IDBI) etc. Besides these RBI act as an adviser to the government. The significance of this function has increased considerably with development process of the country. So, RBI plays an active role in the development process of the country.

11.6 ROLE OF NON BANKING FINANCIAL INSTITUTIONS (NBFIs) IN THE INDIAN ECONOMY

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFI facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.Examples of these are: HDFC Ltd., Aditya Birla Finance Ltd., LIC Housing Finance Ltd., and Bajaj Finance, India bulls Housing Finance Ltd.

Non-banking financial institution (NBFIs) constitutes an important segment of the financial system in India. NBFIs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFIs supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. NBFIs have a more flexible structure than banks. As compared to banks, they can take quick decisions; assume greater risks, tailor-make their services and charges

according to the needs of the clients. Their flexible structure helps in broadening the market by providing the saver and investor a bundle of services on a competitive basis.

NBFIs (Non Banking Financial institutions) play an important role in promoting inclusive growth in the country, by catering to the diverse financial needs of bank excluded customers. Further, NBFIs often take lead role in providing innovative financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable to their business requirements. NBFIs do play a critical role in participating in the development of an economy by providing a boost to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society. Emergency services like financial assistance and guidance is also provided to the customers in the matters pertaining to insurance.

NBFIs are financial intermediaries engaged in the business of accepting deposits delivering credit and play an important role in channelizing the scarce financial resources to capital formation. They supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. However, they do not include services related to agriculture activity, industrial activity, sale, purchase or construction of immovable property. In India, despite being different from banks, NBFC are bound by the Indian banking industry rules and regulations.

NBFI focuses on business related to loans and advances, acquisition of shares, stock, bonds, debentures, securities issued by government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business.

The banking sector would always be the most important sector in the field of business because of its credibility in supporting manufacturing, infrastructural development and even being the backbone for the common man's money. But despite this, the role of NBFIs is critical and their presence in a country would only boost the economy in the right direction.

11.7 THE MAJOR REFORMS INITIATED IN THE FINANCIAL MARKET

Indian financial market comprised of money market and capital market. A money market is a market for near money that is associated with the borrowing and lending of short term funds. Again capital market is an institutional arrangement for borrowing and lending of long term funds.

The major money market reforms came after the recommendations of S. Chakravarty Committee and Narsimham Committee. These are outlined below:

Deregulation of Interest Rates: Interest rates are now subject to market conditions as the ceiling limit on them have been removed by RBI after 1989.

Reforms in Call and Term money market: The reforms in call and term money market were done to infuse more liquidity into the system and enable price discovery. RBI undertook several important steps to check the constraints and remove them systematically.

Introduction of new money market instruments : RBI introduced many new market instruments to diversify the market. These were certificates of deposit in 1989, commercial papers in 1990 and interbank participation certificates with/without risk in 1988.

Setting up Discount and Finance House of India : Discount and Finance House of India was set up in 1988 to impart more liquidity and also further develop the secondary market instruments.

Introducing Liquidity Adjustment Facility: RBI introduced a Liquidity Adjustment Facility in June 2000 which was operated through fixed repo and reverse repo rates.

Again the government has taken several measures to develop capital market in post-reform period, with which the capital market reached new heights. Some of the important measures are

Dematerialisation of Shares: Dematerialisation of shares has been introduced in all the shares traded on the secondary stock markets as well as those issued to the public in the primary markets. Even bonds and

debentures are allowed in demat form. The advantage of demat trade is that it involves Paperless trading.

Screen Based Trading: The Indian stock exchanges were modernised in 90s, with Computerised Screen Based Trading System (SBTS), It cuts down time, cost, risk of error and fraud and there by leads to improved operational efficiency. The trading system also provides complete online market information through various inquiry facilities

Establishment of Securities and Exchange Board Of India (SEBI): SEBI became operational since 1992. It was set with necessary powers to regulate the activities connected with marketing of securities and investments in the stock exchanges, merchant banking, portfolio management, stock brokers and others in India. The objective of SEBI is to protect the interest of investors in primary and secondary stock markets in the country.

Establishment of National Stock Exchange (NSE) : The setting up to NSE is a landmark in Indian capital markets. At present, NSE is the largest stock market in the country.

Investor Protection : The Central Government notified the establishment of Investor Education and Protection Fund (IEPF) with effect from 1st Oct. 2001.

Trading In Central Government Securities: In order to encourage wider participation of all classes of investors, Including retail investors, across the country, trading in government securities has been introduced from January 2003.

Credit Rating Agencies : Various credit rating agencies such as Credit Rating Information services of India Ltd. (CRISIL-1988),Investment Information and credit Rating Agency of India Ltd. (ICRA -1991), etc. were set up to meet the emerging needs of capital market. They also help merchant bankers, brokers, regulatory authorities, etc. in discharging their functions related to debt issues.



CHECK YOUR PROGRESS

Q 3: What are the functions of RBI in Indian Economy? (Answer in about 60 words)

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Q 4: Describe about the major reform initiated in capital market in India. (Answer in about 60 words)

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11.8 LET US SUM UP

- Commercial bank is an important part of Indian financial system. The systematic form of commercial banks was initiated in the early part of nineteenth century with the establishment of Presidency Banks. At present there are 27 nationalised banks(including SBI group) working in India. With the introduction of banking sector reforms the composition of banking system in India was recorded a considerable change. At present there are 381 scheduled and two non-scheduled banks operated in India.
- From the beginning, Commercial Banks are playing an important role in the economic development in India. The Commercial Bank of India plays important role especially in the mobilisation of resources, Supply of rural credit, supply of credit to small scale industries etc. Commercial banks

are rendering valuable services with mobilising small saving and financial resources from different areas.

- In order to support the rural banking sector in recent years, Regional Rural Banks has been set up all over India with the objective of meeting the credit needs of the weaker Section of the society. These institution are playing a very important role for all round development of rural areas of the country.
- Regional Rural Banks have made commendable progress in advancing various types of loan to the weaker and under privileged section of the rural society.
- On the 1st April, 1935 Reserve Bank of India (RBI) was established as per the Reserve Bank of India Act 1934 as a shareholder's Bank. It performs some important functions like note issue, banker's bank, banker to the government, custodian of reserve, credit control etc.

  RBI performs various developmental and promotional functions. It attempts to mobilise saving through banks and other financial institutions for productive purposes.
- Non-banking financial institution (NBFIs) constitutes an important segment of the financial system in India. NBFIs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit.

  Indian financial market comprised of money market and capital market.The money market reforms are-deregulation of interest rates,reforms in call and term money market, introduction of new money market instruments, Setting up Discount and Finance House of India, introducing liquidity adjustment facility. Again capital market reforms are-dematerialization of Shares, Screen Based Trading, Establishment of Securities and Exchange Board Of India (SEBI), Establishment of National Stock Exchange (NSE), Investor's Protection.



11.9 FURTHER READING

1) Dhar, P.K. (2018). *Indian Economy: Its Growing Dimension.* New Delhi:

Kalyani Publishers.

2) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.

3) Misra, S.K. & Puri, V.K. (2018). *Indian Economy.* New Delhi: Himalya Publishing House.

11.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Commercial Banks are playing an important role in the economic development in India.Today , Commercial banks in India have become more customer focus and service-oriented than they were before. They have developed the facilities like better customer service, Bank on Wheels, Portfolio Management,Issue of Electro- Magnetic Cards etc.

Ans to Q No 2: Basically RRBs plays a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labours, and even small entrepreneurs.

Ans to Q No 3: The important functions of RBI are:

a)Note Issue b)Banker to Government c)Banker's Bank d)Credit control. e) Custodian of foreign exchange reserve f) Developmental functions

Ans to Q No 4: The major reforms initiated in capital market are-

a) Dematerialisation of Shares b) Screen Based Trading c)Establishment of Securities and Exchange Board Of India (SEBI) d)Establishment of National Stock Exchange (NSE) e)Investor Protection

11.11 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: What is commercial Bank?

Q 2: Define Regional Rural Bank.

Q 3: In which year RBI was established?

Q 4: In which year UTI was established?

Q 5: What is bank on wheels?

Q 6: What is Portfolio Management?

Q 7: Give some examples of NBFI.

Essay type questions (Answer each question in about 300-350 words)

Q 1: Discuss the changing role of Commercial bank in Indian Economy.

Q 2: Critically evaluate the role of Regional Rural Bank in the development of Indian Economy.

Q 3: Discuss the developmental functions of RBI.

Q 4: Discuss about the reforms initiated in the financial market in India

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UNIT 12 : UNORGANISED SECTOR, LABOUR LAW AND LABOUR POLICY

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Unorganised Sector and India's Informal Economy

- 12.3.1 Size of the Informal/Unorganised Sector
- 12.3.2 Features of the Informal/Unorganised Sector
- 12.3.3 Major Issues of the Informal Sector
- 12.3.4 Suggestive Measures

12.4 Present Status of India's Agricultural Labours

12.5 Major Recommendations of the National Commission of Rural Labours

12.6 Industrial Labours

- 12.6.1 Definition
- 12.6.2 Features of Industrial Labours

12.7 Trade Union Movement in India

- 12.7.1 Growth of Trade Union in India
- 12.7.2 Weaknesses of Trade Union in India

12.8 Industrial Disputes

- 12.8.1 Causes of Industrial Disputes
- 12.8.2 Settlement of Industrial Disputes

12.9 Social Security Measures introduced for the Welfare of Labours

12.10 Problems of Labour Market and Suggestive Measures

- 12.10.1 Definition of Labour Market
- 12.10.2 Problems of Labour Market
- 12.10.3 Suggestive Measures

12.11 Let Us Sum Up

12.12 Further Reading

12.13 Answers to Check Your Progress

12.14 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know the outline of the unorganised sector and India's informal economy
- describe the present status of agricultural labours in India.
- discuss the major recommendations of National Commission of Rural Labours
- put forward the concept, characteristics and issues related to industrial labours in India
- discuss the establishment goal, growth and trend of trade union in India
- point out the Reasons of industrial disputes and measures for dispute settlement
- discuss how to enhance welfare of Indian labour with the help of social security measures.

12.2 INTRODUCTION

In this unit, we will discuss issues of India's unorganised sector in the larger context of informal economy of India. As we all know Indian economy is agrarian and rural in nature. Alongside the formal economy, there is preponderance of unorganised as well as non-monetised sectors in the rural economy of India. Though the exact estimate of the contribution of these sectors to India's GDP growth has not been available, this engages a huge number of uneducated-unskilled workers and gives livelihood to many poor households. However, this sector suffers from various types of problems which needs to be addressed on priority basis. There is urgent need to devise strategies for formalisation of this sector with a view to generate employment. In addition to discussion on the nature and various dimensions of informal economy, thisunitalso covers a detailed discussion on nature, challenges and issues related to Indian labour market, trade union movement in India, industrial disputes, settlement of industrial disputes, recommendations of NCRL, social security measures etc.

12.3 UNORGANISED SECTOR AND INDIA'S INFORMAL ECONOMY

In India, the informal sector is commonly referred to as the 'unorganised sector' and the workers working in them referred to as 'unorganised workers'. The term 'informal economy' is used to represent the informal/unorganised sector and informal/unorganised workers. Informal sector workers are characterised by low educational level, poor financial capacity, possessing at best low-end skills, inferior working conditions and low bargaining capacity due to lack of the organisational skills. Workers in the informal sector receives low wages and if they are self- employed, their income is usually very low. The term informality or unorganised does not imply a particular mode or location of labour used. It covers a wide range of workers whether it be in self-employment, in casual wage employment and in regular wage employment, just as it can be in urban as well as in rural areas. Informal labour is a labour whose use is governed neither by state regulations nor by collective agreements between workers and employers. Informal labour has been viewed as labour engaged in urban small-scale enterprise as self-employment as labour engaged in traditional activities, as wholly unskilled labour, and as labour whose use is not subject to any rules or norms. In rural areas, the bulk of the informal sector workers comprise of landless agricultural labourers, small and marginal farmers, sharecroppers, persons engaged in animal husbandry and fishing, forest workers, toddy tappers, workers in agro-processing and food processing units, artisans such as weavers, blacksmiths, carpenters and goldsmiths, etc. On the other hand, the urban informal sector workers comprise of manual labourers in construction, carpentry, trade and transport, small and tiny manufacturing enterprises and persons who work as street vendors and hawkers, head load workers, rag pickers, etc.

Globally, the term informal sector was first mentioned in the report of Kenya Mission in 1997 by the International Labour Organisation (ILO). After that this concept became important. The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/

unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers. The NCEUS has also defined the informal workers as "Unorganized workers consist of those working in the unorganized sector or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment and social security benefits provided by the employers".In the informal sector workers are not administered with social security benefits and employment concession like the employers provide to their workers in the formal sector. These definitions clearly indicate that the sector consists of all those works which do not fall under the jurisdiction of the government of the state and were the employment interaction ensures no legal way of conduct. In this sector there is no such like fitting procedure of recruitment, selection, promotion, and social safety and development of employee.

12.3.1 Size of the Informal/Unorganised Sector

The economy of India is characterised by presence of unorganised or informal sector. A large portion of Indian labours are engaged in unorganised sector in India. A clear distinction between the organised and unorganised sector is made by the National Commission for Enterprise in Unorganised Sector (NCEUS). According to NCEUS, the unorganised sector is the sector where the enterprises employ less than 10 workers. Again, NCEUS has provided a clear distinction of organised and unorganised workers. the unorganised workers are those who employ in whether organised or unorganised sector are not covered under social security measures.

According to the NCEUS report in 2005, out of total employment of 458 million, 395 million are engaged in unorganised sector which accounted for almost 86% of total employment in India. According to the National Sample Survey Organisation (NSSO), in 2009-10, out of 46.5 crore workers, 43.7 crore workers are engaged

in unorganised sector. The composition of employment in the organised vs unorganised sector was in the proportion 13:87 in 2004-05 and 17:83 in 2011-12 indicating an increase in organised sector employment from 13 per cent in 2004-05 to 17 per cent in 2011-12. But this increase in organised sector employment was informal in nature (48 per cent in 2004-05 increased to 55 per cent in 2011-12) while the share of organised formal employment decreased (52 per cent in 2004-05 decreased to 45 per cent in 2011-12). But in the unorganised sector the share of formal employment marginally increased from 0.3 to 0.4 per cent and that of informal employment declined marginally from 99.7 to 99.6 per cent. On the whole, the number of formally employed increased from 33.41 million in 2004-05 to 38.56 million in 2011-12.

12.3.2 Features of the Informal/Unorganised Sector

The main features of informal/unorganised sector of India are as follows: -

- **Low level of education:** The lack of proper education and training of workers engaged in the informal sector is the main feature of informal/unorganised sector in India. The skill gained by these workers are from outside the formal education and vocational training. The informal or unorganised sectors are only the job providing avenues for them. They are not capable of finding any job in the formal sector as they are not efficient as well as there is lack of professionalism in them. Thus, there is no alternative choice available for them other than engaged in the unorganised sector.
- **No job security:** There is no job security associated with the jobs in the informal or unorganised sector. the NCEUS has classified the workers as formal and informal on the basis of job security. The workers working in the informal sector are not provided any job security. This is one of the main characteristics

of informal sector in India.

- **No regular job:** The jobs provided by the informal sector are not regular in nature. The jobs are available on the basis of the requirement of the workers by the employers. When there is no need of workers then the workers are asked to leave the job without providing any reason. Thus, the jobs are temporary in informal sector and it is in favour of employer only. This is another salient feature of informal/unorganised sector in India.
- **Workers are paid on daily basis:**The socio-economic conditions of workers engaged in informal sector are so deplorable that they required to be paid on daily basis. They are exploited by their employers. They are paid low wages, no any work security, women and child labours are even paid lower than male counterpart etc.
- **Easy entry:** The entry in the informal/unorganised sector in not closed. It is easy in the sense that who want a job in this sector can find some sort of job easily though the wages are low and paid on daily basis. Thus, easy entry is another feature of informal sector.
- **Absence of legal framework:** This sector remains outside the existing labour laws of an economy. This makes their jobs insecure and vulnerable. The fate of these workers remains mostly with the mercy of employers.
- **Low scale of operations:** The scale of operation of the informal sector is very low. The level of investment, technology used and income generated are very much low.
- **Lack of access to institutional finance:** Small and micro enterprises under informal sector do not have access to finance from formal banking and non-banking financial institutions as they are not registered.

12.3.3 Major Issues of the Informal Sector

In India, people engaged in informal sector are mainly poor in terms of education, skill, capital etc. Since alternative source of employment and income in formal sector is limited for these unskilled workers, they end up in informal sector mainly as source of livelihood. Besides, the employment growth in the organized/formal sector has always been less than the total workforce available in the country resulting in a faster growth of employment in the informal sector. The large-scale migration of unskilled people from rural to urban areas has also resulted in burgeoning expansion of informal sector. This sector remains outside existing taxes and labour laws of the economy which stand as stumbling block in availing social security and job security. Since these enterprises are not registered, they do not have access to finance from formal banking and non-banking financial institutions.

12.3.4 Suggestive Measures

Informal sector in India is quiet large in its size and operation. It comprises mainly of a large number of poorly educated labour force, traditional occupations, poor financial inclusion and lack of motivation or aspirational skills. Therefore, any approach undertaken to address issues of informal or unorganised sector must take into account all these aspects. A holistic approach is needed to address the issue. Following suggestions can be made in this regard.

- There is a need to create a congenial environment which will encourage micro and small enterprises to register and realize that any cost of formalization is associated with number of benefits like access to finance, better infrastructure, market information, government incentives, a platform for formal association, providing them legal framework, efforts to overcome uncertainty in financial returns and safety nets for them as well as their workers.

- As corollary to the above, this will inculcate a tradition of regulatory compliance in terms of taxes and labour laws. Once registered, this besides expanding tax base of the country will also help government finance minimum social security cover for workers in unorganised sector.
- Moreover, the process of formalisation will lead to an improvement in skill levels of the workforce that match the requirements of the job market and at the same time improve the bargaining power of the workforce to settle for decent wages, social security and job security.
- Since workers engaged in unorganised sectors are less educated and unskilled, some special training is necessary to impart state of the art skill so that these workers can be gainfully employed in organised sectors.
- Some social security arrangement should be made for informal/ unorganised workers in addition to present measures which are considered to be not sufficient.

12.4 PRESENT STATUS OF INDIA'S AGRICULTURAL LABOURS

India is an agrarian economy employing nearly 50 percent of the total labour force of the country. Out of this, a sizeable amount of workforce are agricultural labourers. But whom to be called as an agricultural labour. The first attempt in defining an agricultural labour was made in 1950-51 by the Agricultural Labour Enquiry Commission. According to this commission, all those who accept wage employment in any crop raising activity are to be treated as 'agricultural labourers. This definition has not scientific basis in as much as most workers in India do not succeed in getting wage employment. This committee has introduced a new term 'agricultural labour household. The bread earner of a family of 50 percent or more of the income earners of a joint family take agricultural labour as the main occupation, the family has to be classified as agricultural labour household. This definition

also includes rural artisans, small and marginal farmers in agricultural labourers. The attempt was made by the Agricultural Labour Enquiry Commission of 1956-57. This commission adopted a slightly broader definition as it also included certain allied activities like animal husbandry, dairy, poultry, piggery, pisciculture etc. under agricultural operations. But the Census of 1961, included all those who worked on others' land and receive compensation either in cash or kind (or partly in cash and partly in kind) were treated as agricultural labourers. The Census of 1971, defined agricultural labour as those people whose main occupation was working on the farms of others. Though, this definition provided by the Census of 1971 was considered to be quiet, but it was most accepted one in the context of India. Generally, workers who are involved in farm activities are known as agricultural labourers.

The agricultural labourers are most vulnerable sections in India. They are lacking of skill, proper education, training etc. andthus, productivity is very low. In some cases, their productivity becomes or falls below zero giving rise to disguised unemployment. Thus, their income is too low to obtain the minimum standard of living. Therefore, this class is socially as well as economically backward. They are also subjected to exploitation and are the most oppressed class in India. In the early times, like prior to independence the condition i.e., social and economic status of agricultural labours is very painful. Their conditions were not better than beggar (or forced labour). They were also considered as bonded labours and were forced to work as serf or slave. They did not even get money wages for their labour. Thus, they are impoverished section. However, as a result of concerted policy efforts by the government under its various development plans the conditions of agricultural labourers have been improving. But still it is not adequate.

The exact statistical data on agricultural labours in India are not available. In 1960, according to the second Agricultural Labour Enquiry (ALE), about 25 percent of rural populations were engaged as agriculture labourers and more than 85 percent of the rural workers are casual, serving any farmer who is willing to engage them and only 15 percent of agricultural labourers

are attached to specific landlords. ALE also came up with the findings that most of the agricultural workers don't have land holdings and even they have, the size of the land is very small. Regarding social status of the agricultural labourers ALE found that they mostly belong to lower caste viz. schedule tribes, schedule caste and other backward classes. In 1961, total number of agricultural workers was 31 million. According to the estimates of the National Commission on Rural Labour (NCRL) in 1991, the total rural household is 108.4 million out of which 43 million are rural labour households and among them 33.3 million are agricultural labour households in 1987-88 which was almost 77 percent of rural households is agricultural labour households.



LET US KNOW

- Agriculture labours can be categorised as -
  a) Landless Labours who are attached to the landlords.
  b) Landless labours who though independent but work exclusively for others
  c) Small farmers with tiny pieces of land who out of economic necessity have to devote most of their time to working for others.
  d) Farmers who although have economic holdings but some members of their family work for other farmers.
- **Contract labour:** the labour of workers whose freedom is restricted by the terms of a contractual relation and by laws that make such arrangements permissible and enforceable. Contract labour is hired, supervised and paid wages by the contractor.

12.5 MAJOR RECOMMENDATIONS OF THE NATIONAL COMMISSION OF RURAL LABOURS (NCRL)

The National Commission on Rural Labour (NCRL) constituted under the chairmanship of Dr. C. H. Hanumanth Rao in 1991.It is the most significant step towards the welfare of rural labour. made a strong recommendation

for a national minimum wage for rural labour. They deplored the wide variations in the minimum wages prescribed for unskilled workers in agriculture by various State Governments, and laid down the following principles for fixation of minimum wages: (a) the cost of living relating to the minimum subsistence level for the worker and his family of three adult consumption units, and (b) the minimum wage will be the same for all employments. The National Commission on Rural Labour thought that the application of these principles would naturally bring about uniformity in the minimum wages throughout the country irrespective of the authorities notifying the wage. The Commission called this the basic minimum wage applicable for the country as a whole, and no wage should be fixed or permitted below this level. This is to be distinguished from the minimum wage which may be notified above this level under the Minimum Wages Act by different State Governments. Differences in the wages arrived at on the basis of cost of living would be accounted for only by the differences in the comparative cost of living between various regions in the country.

In India, there is inequality in agrarian structure and increasing polarisation in Indian agriculture. It has been observed that there is a growing tendency on the part of the small and marginal farmers to sell their land holdings to big farmers. This is mainly because of the fact that though the modern technology is scale neutral, the small and marginal farmers find it difficult to adopt it due to capital scarcity. In the words of NCRL, "the new technology, being market oriented and capital intensive, has mainly favoured the big peasants, small farmers not possessing the required resource base or requisite knowledge and risk bearing capacity have lagged behind the adoption of technology. Small and marginal farmers are therefore, placed at a disadvantage vis-à-vis the big owners and sometimes economic pressures might have forced them out to join the swelling ranks of agricultural labourers."

There are various measures suggested by the NCRL to improve conditions of rural labourers.

A few important measures are listed below.

- To create and/or strengthen infrastructure of irrigation, drainage and flood

control and rural electric supply as well introduction of dry farming technology, which will result in increasing agricultural productivity and employment.

- This is very necessary that employment generation programme should be undertaken to absorb the excess supply of labour for agricultural operations and in turn, it will increase the income of the agricultural labourers. Thus, enforcement of minimum wages and social security are the essential components of employment programmes.
- Agricultural labourers should be provided with house sites and homesteads not only to meet their basic need but also enable agricultural households to take up supplementary land-based activities like poultry, dairy etc.
- There is an urgent need for a Central Legislation to cover agricultural labour. This legislature should provide security of employment for agricultural labour, payment of prescribed wages and machinery for the settlement of disputes. This legislature should also include the social security measures and welfare schemes for development of agricultural labourers.
- This commission recommends constitution of a separate department for rural labour at the Central and the State levels with the functionaries below the State level as well.
- It recommends establishment of Agricultural Labour Welfare Fund to provide assistance to women agricultural labour for maternity leave for two surviving children, old age pension at the Rs. 100 per month and death and injury compensation.
- This commission endorses the provision for enabling formation of trade unions and agricultural labourers to carry on their activities under applicable laws.



LET US KNOW

- The National Commission on Rural Labour was established in 1991 under the chairmanship of Dr. C. H. Hanumanth Rao.

- **REGE COMMITTEE:** Labour Investigation Committee (also known as Rege Committee) is a committee for the development of Labour Welfare in India. The formation of Rege Committee was the second most significant in India for development of labourers. It investigated the matter of employment, wages, housing safety, education, social conditions of labour and other welfare measures in details.
- The first National Commission on Labour was set up on 24th December 1966 under the Chairmanship of P.B. Gajendragadkar. The Commission submitted its report in August, 1969 after detailed examination of all aspects of labour problems, both in the organised and unorganised sectors.
- The second National Commission on Labour (NCL) was set up on 15th October 1999 under the chairmanship of Ravindra Varma which submitted its report to the then Prime Minister Atal Bihari Vajpayee on 29 June 2002.
- **NCEUS:** National Commission for Enterprise in Unorganised Sector.



CHECK YOUR PROGRESS

Q 1: What is meant by unorganised sector?

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Q 2: Write the full form of NCEUS?

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Q 3: Write the full form of NCRL?

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Q 4: Define informal workers.

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12.6 INDUSTRIAL LABOURS

12.6.1 Definition

It refers to all those workers, who are employed in manufacturing units, i.e., the workers employed in large scale, village &small-scale industries are considered industrial labour in general sense.

12.6.2 Features of Industrial Labours

- **Low literacy:** In India majority of industrial labourers areilliterate and thus they are ignorant of information regarding emerging job market. In deed the low level of literacy is considered to be one of the major drawbacks of Indian industrial labourers.
- **Large scale absenteeism:** Absenteeism in workplace is another major problem of Indianindustrial labour.
- **Low productivity:** The productivity of industrial labour in India is very low. This is mainly due to lack of skills, training, education, poor health etc.
- **Low efficiency:** The efficiency as well effectiveness of Indian industrial labourers is also very low.
- **Poor physical and mental health:** The physical and mental health should be good to work efficiently and productively. But the lack of proper nutritious diet and living in unhygienic conditions due to poverty lead to poor physical and mental health.
- **Poverty:** Most of the Indian labourers are poor in absolute sense.
- **Lack of organisation:**The Indian industrial labourers are not united due to difference in religion, castes, creed etc.
- **Migration:** The Indian labourers are migratory in nature that means they are not restricted to any one occupation or any region. For example, the labourer migrated to industry from agriculture also go back to later in the harvesting seasons. This affects industrial production and productivity of Indian industrial labourers.

- **Lack of information:** the Indian industrial labourers are not aware of the facts and information's about the job and labour market opportunities due to their low-level educational attainment. This could lead to non-specialisation of work.
- **Superstition and religious belief:** The Indian labourers are superstitious and it adversely affects their job selection and productivity. Thus, their behaviour is not rational.
- **Ignorant of rules and regulations:** Most of the Indian industrial labourers are ignorant of rules and regulations associated with their job due to lack of proper education.
- **Lack of skills and specialisation:** Lack of skills and specialisation lead to inefficiency in production. This is an important feature of Indian industrial labour.
- **No punctuality and discipline:** In India, most of the industrial labourers are not punctual as well as discipline. They do not know to value time. As labour is one of the perishable commodities, one worker unemployed for a day, his or her labour is lost. Thus, labour cannot be postponed, stored and accumulated for future.
- **Bad habits:** The industrial labours of India are mostly involved in bad habits like tobacco chewing, inhaling marijuana, drinking liquors etc. They are involved in unhealthy practices. As a result, their efficiency and mental discipline are badly affected.

12.7 TRADE UNION MOVEMENT IN INDIA

"A trade union is a voluntary organization of workers formed for the purpose of promoting and protecting the interest of workers through collective action" (Mukherjee, 2019).

12.7.1 Growth of Trade Union in India

If we look at the history of trade union movement in modern industrial relation in India, the trade union of textile works of Bombay that came

into existence in 1890 is the first of this kind. However, the real beginning of the trade union movement in India can be traced back towards the end of 1st world war (1914-1918) only. The formation of Madras Trade Union in 1918 immediately after the Russian revolution of 1917 was marked by an organised trade union movement in India. After this, India witnessed formation of many trade unions of which mentioned may be made to All India Trade Union Congress which was formed in 1920 followed by All India Railway Men Federation & All India Post & Telegraph Unions which were formed in 1922.

In India, S. S. Bangalee and M. Lokhande had successfully formed the trade union in the last part of nineteenth century. In the first quarter of twentieth century, the working class of India had experienced the emergence of trade union. The main motive of formation of trade union is to facilitate the rights of working class in India. With the emergence of modern Industrial development, the working class had realised the importance of trade union as a mean to avail better working conditions, high wages, concessions etc. Thus, strikes were frequently occurred. As a result of these growing number of strikes, All India Trade Union Congress (A.I.T.U.C) was established in 1920. Protection and representation of workers' interests, maintain coordination and co-operative relations among the activities of various labour organisations were the major area of concern of A.I.T.U.C. It also took into account the unorganised areas of the country. The government of India passed the Trade Union Act in 1926.

Due to the ideological differences, the trade union splits into two parts in the last part of 1920s. The communists captured A.I.T.U.C, while moderates formed All India Trade Union Federation. Again, there was further partitions of trade union movement in the emergence of Great depression of 1930s. Before emergence of second world war some parts of trade union were re-unite but the outburst of war led to further and more severe divisions of trade union movement in India. After independence accompanied with the

partition, the trade union movement faced very serious issues of growing unemployment. Thus, to protect the interest of workers, strikes held all over the India. At that time India experienced highest number of strikes which adversely affected growth of the economy. This situation ultimately led to formation of three central organisations: Indian National Trade Union Congress (INTUC), which was formed in 1947 and it was controlled by the Congress party, Hind Mazdoor Sabha (HMS), was set up in 1948 by then Praja Socialist Party and United Trade Union Congress (UTUC), was set up in 1949 by some radicalists of India. Till now the trade union movement of India is headed by these three major organisations with their differences in ideologies and policies.

According to the data provided by the Chief Labour Commissioner in 1994, BhartiyaMazdoorSangh (BMS) had occupied the 1st position with total membership of 31.17 lakh.BMS is affiliated to Bhartiya Janata Party (BJP). It is followed by INTUC affiliated to Congress party with membership of 27.06 lakh. CITU, affiliated to CPI (M) and HMS, affiliated to Praja socialist Party have secured the 3rd & 4th positions with memberships of 17.98 lakhs and 14.77 lakhs respectively.

12.7.2 Weaknesses of Trade Union in India

Trade union is always treated as an institution that intends to protect and serve the interests of the working classes. It has assumed an important place in the realm of industrial relations in India since its inception in the colonial period. However, with the adoption of new economic reforms in 1991and concomitant growing tendency for contractualisation of labour has reduced its relevance in the present context. The growth of information technology also has posed a threat to the existence of trade unions in India. Some major weaknesses of trade union are explained below: limited membership, lack of unity, more than one union, weak finance, illiteracy, outside

leadership, political influence etc.

- **Limited Membership:** The Trade Union in India have limited membership. Majority of the workers have not taken the membership of the union. Only 40-50% of the workers get membership. This tendency has made the union weak.
- **Lack of Unity:** There is no unity among the members of the trade union. They are divided and sub - divided on the basis of caste, religion, language, personal interests etc.
- **More than one Union:** In India, there exist too many trade unions. Many unions are formed within one industry. This is an unhealthy trend. This will result in inter union rivalry.
- **Weak Finance:** Low level of fund is an important factor affecting the functioning of trade union in India. As a result of insufficient finance trade union cannot undertake labour welfare and benefit schemes.
- **Illiteracy:** Majority of Indian Industrial workers are illiterates. They are unable to understand the importance of unity and unionism. They do not come forward to launch united struggle. Thus, they easily become victims of employers.
- **Outside Leadership:** Most of the unions are controlled by outsiders. They do not take those in the development of trade union nor protection of labour interest.
- **Migratory Character:** The factory workers in India are mostly controlled by some emotional sentiments. They come from villages and return to villages as soon as the work is completed. They move from one job to another without any reason.
- **Political Influences:** In majority of cases it seems that the Indian trade unions are controlled by political parties and politicians. Most of the times, politicians victimise the workers to protect their self-interest.
- **Defective Administration:** The administration of trade unions is not efficient that hinders proper functioning of the trade union.
- **Lack of Government Interest:** The government does not take

much interest in the formation and growth of trade unions. This indifferent attitude of the government is partly responsible for the slow growth of trade union movement.



LET US KNOW

- Industrial labourers refer to all those workers, who are employed in manufacturing units.
- A trade union is a voluntary organization of workers formed for the purpose of promoting & protecting the interest of workers through collective action.



CHECK YOUR PROGRESS

Q 5: What is meant by industrial labour?

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Q 6: When was trade union formed in India?

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12.8 INDUSTRIAL DISPUTES

A sound and cordial relationship between workers and employers is very important for better industrial productivity and industrial performance. But sometimes there are conflicts of interests of workers and employers which results in disputes. An industrial dispute can be defined as cessation of work in an industrial unit when the cooperative relation between employers and employees breaks down on different issues largely issues internal to the industry. Industrial disputes mainly take the form of strikes, gheraos, lockouts etc. The onset of disputes in an industry adversely affects the productivity of the industry as a result of which total outcome of the industry gets reduced which in turn stymies GDP growth of that country.

12.8.1 Causes of Industrial Disputes

There are several causes of industrial disputes. The main reason

behind this is the conflicting interests of employer and workers. The main motive of employer is the profit maximisation while the workers want maximisation of wage and salary. With change in time, there is shift in causes of disputes. For instance, before liberalisation, the main reason behind dispute was the demand for wage hike, but after liberalisation, disputes occur for recognition of trade union, betterment of service condition etc. Thus, the cause of dispute is influenced by external factors. The reason of industrial disputes can be broadly categorised into three categories: a) economic causes, b) management causes and c) political causes. The economic causes focus on wage and salary hike, allowances, retrenchment of employees etc. The managerial causes include issues like anti-labour behaviour of employers, overload, over work pressures on employees etc. The political causes are external in nature which is based mainly on political interest and agenda of political party in power. The following are some common causes of industrial disputes in India: -

- **Demand for higher wage and allowances:** The most striking cause of industrial dispute in India has been the demand for higher wages and allowances. Though the price level increases very rapidly, the increase in wage doesn't cope with the price. Thus, the increase in wage is slow.
- **Demand for bonus:** Demand for bonus is another common reason behind industrial disputes in India. Workers demand to increase their share in profits of the industry but the employers do not accept this, which results in industrial disputes among employers and employees.
- **Demand for betterment of working conditions:** With the increasing pace of globalisation, there is upliftment attitude of Indian workers which demands more conducive environment to work with. Thus, the demand for betterment of working condition is another vibrant reason of industrial disputes in India.
- **Personnel and retrenchment:** Among the causes of industrial

disputes in India, personnel and retrenchment turn out to be a significant factor. It accounted about 29 percent of the total disputes during 1961-76. It was decreased to nearly 22% in 1981-84.

- **Non-implementation of labour laws:** Non implementation of laws formulated in favour of labour results in industrial disputes. In India, nearly 200labour laws are formulated at union and state levels. But they are very poorly implemented an enforced.
- **Conflict between employer and employee:** The basic reason behind the industrial dispute is the conflicts between the goals of employers and employee. If employers try to maximise their profit maximisation goal, the employee are certainly effected by lower wage rates, no bonus or low bonus, under provision of working conditions, over-time work etc.
- **Job security:** Job security is the most prior need of present time's worker. The job with less job security is least preferable. On onset of uncertain economic conditions (business cycle), lack of job security could be reason for industrial dispute.
- **Political factors:** Political interest also remains behind industrial dispute in India. It appears that political parties in most cases use trade union for their own benefits and trade union works under the wings of political party. In earlier, the trade union were not much powerful to influence employers. But now-a-days, trade union acquires strength and enables to influence employers. The trade union also conscious to avail their rights by using political power. Thus, the political scenario of a nation may result in disputes among workers and employers.
- **Intra/inter union fights:** Another reason behind disputes can be the inter union as well as intra union rivalry. Now a day, there are more than one union in a single industry. The objectives of these multiple unions are not always the same. These differences lead to industrial unrest.

- **Lock outs:** A Lock out is the extreme cause of industrial disputes in India. The lockouts are declared by employers when the productivity of the workers is low, prolonged strike for fulfilment of different demands of workers, increase in competition due to liberalisation policy, higher degree of bargaining power of employers etc.

12.8.2 Settlement of Industrial Disputes

The industrial dispute is a very common phenomenon in all economies. The conflicts between the two major players of industrial sector i.e., employers and employees on various issues are not conducive for economic growth and development of an economy. Thus, a good and co-operative behaviour among employers and employees is essential requirement for preventing the industrial disputes. Therefore, many measures have been undertaken to settle industrial disputes in India. The primary objective of industrial dispute settlement is to assist all the players of industrial sectors to settle their problems without any work stoppage. Generally, there were two types of disputes settlement mechanisms: conciliation and arbitration. Conciliation (also known as mutual negotiation) is a settlement mechanism in which settlements are done through discussions or mediation. A neutral third party is chosen to narrow down the gap between disputed parties to achieve an amicable solution. In the terminology of industrial disputes, the conciliation officer is called as "Flying Ambulance Squad." Though this seems to be an effective mechanism, it is a time-consuming process and the economy suffers the cost of delay in disputes settlement.

In the arbitration mechanism an arbitrator (a neutral member) tries to solve the industrial disputes. Arbitration can be of two types: voluntary and compulsory. In the voluntary arbitrary, a neutral or impartial third party is employed by the disputing parties to settle the disputes. In the compulsory arbitration (also known as adjudication),

a third party (adjudicator)is appointed by the government to settle the industrial disputes legally. It is the ultimate legal remedy for industrial disputes settlement. It is also known as binding arbitration as the decision is final and binding. Though it is the ultimate dispute settlement mechanism when other measures like mutual negotiation or conciliation is failed, it suffers from drawbacks like undemocratic, sometimes the solution is not mutually benefitted or accepted by either party, it paves the formation of healthy trade union, it works against the unity and enlarges the differences etc. Hence, the compulsory arbitration should be used as an emergency method for settlement of industrial disputes while the conciliation is mostly preferred method of disputes settlement.

From the very beginning the government of India tried to prevent and settle the disputes resulted to industrial sector. As the industrial disputes adversely affects the economy of a country thus the government tries to resolve the issues regarding disputes as fast as possible. The deliberate govt.'s attempt started with the enactment of The Industrial disputes Act 1929 though it failed to a great extent. Again in 1947, government of India passed the Industrial Disputes Act 1947, which is implemented from 1956.Some of the major criteria are mentioned below:

- **Works committees:** Works committees are joint committees of employees and employers to ensure good relationship among them. The main objectives of such committees are to remove the frictions between employers and workers in day-to-day scenario of the factory. The government may direct establishments with 100 or more workers to maintain a good relation among employees and employers through the formation of works committees. These committees provide a forum for negotiations between employers and workers at the factory level. 546 and 870 such works committees are established in 1987 and in 1998 respectively.

- **Conciliation Officers:** The government of India appoints conciliation officer, region and industry wise. The main work of the ciliation officer is to settle the disputes and bring the employers and workers together and maintain a healthy relationship among them. If the officer is success to resolve the dispute then he/she has to the report the government about the agreements. If he/ she is failed to settle the disputes, then he/she should inform about the failure and also provide the reasons behind failure and the unsuccessful steps taken by him/her.
- **Board of Conciliation:** The government forms a board of conciliation with a neutral person as a chairman and two or four persons representing the workers and employers. The main motive of this board is to resolve the industrial disputes. The board should report about its success and failure in settling the issues between the employers and workers and the steps have taken by the it to address the dispute.
- **Court of Enquiry:** When an industrial dispute is not settled by above mentioned methods then the issue is addressed to a court of enquiry. This court consists of one or more independent persons and the court investigate the industrial dispute. After that the reports should be submitted to the government. Then the case will be referred to the Industrial Tribunal for adjudication.
- **Labour Courts:** In order to consider the issues like dismissal, suspension of employees, legality of strikes, lock -outs etc, the state governments set up the labour court. The labour courts try to resolve the issues with great pace. The labour has to report the state government.
- **Industrial Tribunals:** The industrial tribunals are set up for adjudication of disputes. There are two types of tribunals: a) the state level industrial tribunal, and b) the national level industrial tribunals.

The state level industrial tribunals adjudicate disputes related to bonus, wages, profit sharing etc. these industrial dispute tribunals

are headed by a person of the rank of a high court judge.

The national level industrial tribunals are appointed by the central government to resolve the disputes involve in the matter of national importance and which affect industrial establishments in more than one states.

12.9 SOCIAL SECURITY MEASURES INTRODUCED FOR THE WELFARE OF LABOURS

According to ILO (International Labour Organisation), "Social security is the protection which society provides for its members through a series of public measures against the economic and social distress resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death. These measures are also of a great importance to a country which is on the way of large-scale industrialization as they improve employee's morale by providing sense of security to them again various industrial hazards." In other words, social security is an attack on five "Giants": Want, Disease, Ignorance, Squalor and illness. Security against giant of "squalor" mean security against all those evils which come through the unplanned and unorganized growth of cities. The ultimate aim of social security measures is to provide economic and political protection against risks. Thus, the social security has vital importance in mitigating the unplanned contingencies face by the workers.

In India, social security measures were undertaken after independence social security schemes are introduced in two broad ways by: i) social insurance -under this, both employers and employees contribute regularly for benefits of employees. ii) Social Assistance - under this, the state provides certain benefits like medical facilities in govt. hospitals, free enrolment in schools etc to the people without any direct contribution.

Like other countries, India enacted many laws to provide social security to the labour. These are the Employees' State Insurance Act, the Employees' provident funds etc. the following are some of the major laws formulated by government of India as social security measures for benefits of workers.

- **Workmen's Compensation Act of 1923:** This act was enacted by the government of India in 1923 to provide compensation to the workers by the employers for industrial injuries and accidents. The amount of compensation depends on the type of injury and the salary of the worker. This covers industrial units like factories, mines, plantations, mechanically propelled vehicles, construction worker and other hazardous units. The maximum amount of compensation for death was fixed at Rs. 90,000 and for permanent disablement was Rs. 1,14,000. For partial disablement the workers are compensated at 50%of wages for maximum of 5 years period.
- **Employee's State Insurance Act:** This act is passed in 1948 by the government of India. The main objective is to provide compulsory and contributory health insurance to employees. The act covers the workers whose wages are below Rs. 6,500 per month. It does not take into account the armed force employees. The major benefits include:
  - **Sickness benefit:** under this head, the benefit can be availed by an insured worker for certified sickness. The benefits can be incurred through cash payment for maximum of 91 days in any continuous period of one year. The daily payment under this is calculated as half of average daily wages.
  - **Medical benefits:** medical benefits are provided to the worker claims for sickness benefits, maternity benefits or disablement benefits. It provides free medical treatment ad it can be avail if the worker take treatment in the dispensary or hospitals run by the Employee's' State Insurance Corporation. This benefit can be availed by all the family members of the insured worker.
  - **Maternity Benefit:** this benefit is to provide cash payment to the insured women worker for a period of 12 weeks. She gets benefit for 6 weeks before and 6 weeks after the delivery.
  - **Disablement benefits:** This benefit is provided to the insured worker who suffers from injury, accident and occupational disease. For temporary disablement the 70% of the wage is paid during the periods of disablement. But the worker does not get benefit for disablement

for the period less than the three years. For permanent disablement, the payment is made for worker's life and the rate of benefit is determined on the basis of the degree of disablement.

- **Dependent's benefits:** This benefit is offered to dependents of the insured worker who died of industrial accident or injury. The rate of benefit depends on the relationship between the deceased worker and the dependent. The dependents are widow, minor children and parents.
- **Funeral benefits:** the funeral benefit is provided for the expenditure of funeral of the deceased worker. This benefit is given to the eldest family member of the deceased worker.

- **Maternity Benefit Act:** This Act is enacted in 1961. Under this Act, the benefit is made to a woman for a total period of six months. She is provided benefits for 6 weeks before and six weeks after the child birth. There is no wage limit.
- **Employees' Provident Funds and Miscellaneous Provisions Act:** This Act is enacted in 1952. It covers the industrial or factories with 50 or more employees. It covers six major industries: iron and steel, textiles, engineering, cement, paper and cigarettes. This is compulsory and contributory in nature. Thus, this Act provides for provident fund, family pension and deposit linked insurance for the employees in factories and industries.
- **Death Relief Fund:** It is set up under the Employees' Provident Fund Scheme in 1964. The main motive is to provide financial assistance to the nominee/heir of the deceased worker whose wage is excess of Rs. 1000 per month at the time of death.
- **Employees' Deposit Linked Insurance Scheme:** This scheme was introduced for the members of the Employees' Provident Fund. In this scheme, the workers do not need to contribute to the insurance, only the government and employers are required to contribute. The maximum amount that a worker could get is Rs. 35,000.
- **The Payment of Gratuity Act:** This Act was passed in 1972. Under this, a gratuity is made to a worker on termination of his employment i.e.

at retirement, retrenchment etc. In case of death of the worker, the gratuity is made to the dependents of the deceased worker. This is for the workers of mines, factories, oil fields, plantations, ports, railways, companies, shops and other establishments.

- **Employee's Pension schemes:** The governments of India introduced two types of pensions schemes- the Coal Mines Family Pension scheme and Employees' Family Pension Scheme in 1971. The main aim is to provide long-term financial support to family of a worker who met premature death. In the year 1995, Employees' Pension Scheme replaced this. Under this scheme, 50% pay is payable to the employees at the retirement or retrenchment on completion of 33 years of contributory service. To avail this scheme, 10 years' service is mandatory.



CHECK YOUR PROGRESS

Q 7: What is meant by social security?

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Q 8: Name five different types of social security measures available in India.

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12.10 PROBLEMS IN LABOUR MARKET AND SUGGESTIVE MEASURES

12.10.1 Definition of Labour Market

According to Oxford Dictionary of Economics, labour market are the processes by which workers and employers are brought into contact, and wages and conditions of work are decided. Some of these involve formal institutions: contacts between workers and employers may be arranged by employment exchanges or agencies, either public or private. Wages and conditions of work are frequently

decided by negotiation between trade unions representing workers and associations representing employers. Thus, labour market is an institutionwhichbrings workers and employers into contact of each other and facilitates conditions for the determination of wages and conditions of work.

12.10.2 Problems of Labour Market

The major problems of Indian Labour Market are as follows: -

- **Unskilled labour:** The majority of Indian labour force is illiterate and unskilled. They lack proper education, vocational education, skill development programmes, training, technical know-how etc. As a result of this their employment in organised or formal sector is very much limited leaving agriculture to absorb this pool of unskilled labours.
- **Lack of absorption of skilled labour:** In India it is not only the unskilled labourers who remain unemployed but the absorption rate of educated and skilled labour force is also very poor. A huge chunk of technically educated youths after completing their technical education like engineering, vocational courses etc. are finding it difficult to get themselves absorbed in the secondary sector, resulting in the problem educated unemployment in India.
- **Surplus labour:** India is a populous country in the world next to China. Every year a large number of labours join the labour market. But due to lack of adequate job avenues, a large proportion of labours don't get jobs. The presence of surplus labour is thus a problem faced by the Indian labour market. These labourers turn out to be disguised in nature and are an important factor behind low productivity and slow growth of the Indian economy.
- **Unemployment:** As a corollary to the above, every year a large proportion of people join the labour force but due to inadequate employment avenues most of the people remain as unemployed

or partially employed in the unorganised sectors. Presence of disguised unemployment, seasonal unemployment, cyclical employment, structural unemployment etcresult in low productivity and hence the low level of per capita income of Indian. Again, the presence of educated unemployment is another serious issue in this regard. Thus, unemployment has emerged as one of the most serious problems faced by the Indian labour market.

- **Trade Union activities and its political interest:** The main objective of trade union is to protect the interests of labours. It tries to promote overall development of labours. But this leads to protest of workers against employers by the means of strikes, lockouts etc. which adversely affects the production capacity of an economy by influencing the work culture in derogatory manner. Again, the agenda of different political parties also influences functioning of the trade union. Sometimes, there is conflict of ideas between the leader and the members of the work force as the later intuitively try to promote his/her ownbenefit through sacrificing welfare of millions of labours. The aggressive behaviour and unpeaceful attitude of trade union have a negative impact on the economy of India.
- **Lack of Labour Reforms:** Labour market in India is also suffering from lack of adequate labour reforms provision. Economic reforms introduced in the country during the 1990s have changed economic scenario of the country. But the country is lagging behind in adopting necessary labour reforms as per the need in the present context.
- **Not proper utilisation of social security measures:** Social security measures are introduced in the labour market to minimise the risks associated with uncertainty in the production, unseen calamities, bad weather, demise of the labour, disease etc. the main motive of social security measures is to protect the labours from the death of poverty and low standards of living.

In many countries, the security measures are introduced many years ago, but in India, social security measures are introduced just after the independence. Again, implementation of social security measure is also not up to the mark due to unsensitive behaviour of employers and weak strength of labour union.

12.10.3 Suggestive Measures

We have seen that the labour market in India has been suffering from the aforesaid serious problems. Thus, the Government should chalk out proper policy for bringing necessary reforms in the labour market for the greater interest of the country as well as for the interest of labour force (both working and non-working) in general. The following suggestions can be made in this regard.

- Expansion of educational facilities
- Encouraging internal leadership.
- Implementation of one industry, one union.
- Control of political interference.
- Strengthening of their financial position.
- Providing proper training.
- Co-operation of employers.
- Eliminationist-union rivalry.
- Reforming the structure of unions.
- Setting up of employment ventures.



CHECK YOUR PROGRESS

Q 9: What is meant by labour market?

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Q 10: Mention the problems faced by Indian labour market?

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12.11 LET US SUM UP

- Majority of Indian workers are employed in the unorganised sectors due to lack of proper education, vocational education, skill development, communication skills etc.
- Low level of education, no job security, no provision of institutional finance, workers are paid on daily basis, low wage rate, no social security measures, easy entry, low operationsetc are prevailing features of unorganised/informal sector in India.
- The Agriculture labour Enquiry Commission defines agricultural labourers as those derive their main source of income by working on farms of others for a wage.majority of unorganised workers engaged in agriculture.
- The presence of disguised employment in agriculture sector of India is responsible for lower productivity in agriculture.
- The industrial labour refers to all those workers, who are employed in manufacturing units. Low literacy, low productivity, low efficiency, poverty, lack of organisation, migration, lack of information, superstition and religious beliefs, lack of skills and specialisation, no punctuality and discipline, bad habits etc are important features of industrial labour in India.
- Conflicts of interests between employees and employers may result in industrial disputes. Lock outs, strikes etc., are different forms of industrial disputes. The emergence of disputes results in low industrial productivity in India.
- Conciliation and arbitration (voluntary and compulsory arbitration) are different methods for settlement of industrial disputes in India.
- In 1947, Government of India passed The Industrial Disputes Act 1947, which was implemented from 1956.
- Formation of work committees, conciliation board, court of enquiry, labour court, industrial tribunals, industrial truce,National Arbitration Promotion Board, conciliation officers are some of the major criteria for settlement of industrial disputes in India.

- There are various social security measures exist in India for protecting workers against economic and social adversity.
- Indian labour market is volatile, diverse, and vibrant in nature. Though today, India is the fastest growing economy, the employment generation is not adequate to absorb all the qualified young employees. This is the major problem of Indian labour market till date.
- The government of India should take actions to create job opportunities, to expand educational facilities, to provide vocational and skill development trainings,to encourage internal leadership,to implement one industry, one union, to control of political interference, to strengthen their financial position, to promote co-operation among employers, to eliminate inter -union rivalry, to reform the structure of unions, to setting up of employment venturesetc for well-functioning of Indian labour market.



12.12 FURTHER READING

1) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.
2) Dhar, P. K. (2013), "Indian Economy: Its Growing Dimensions",Kalyani Publishers, New Delhi
3) Kapila, U. (2003), "Indian Economy: Issues in Development and Planning and Sectoral Aspects", Academic Foundation, New Delhi.
4) Kapila, U. (2018), "Indian Economy Since Independence", Academic Foundation, New Delhi
5) Misra, S. K. And V.K. Puri (2000), "Indian Economy-Its Development Experience", Himalaya Publishing House, Mumbai.
6) Mukherjee, D. (2019), "Indian Economy Since Independence", NVBA, Kolkata



12.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The unorganised sector is the sector which is not registered with the government. In this sector, employment terms are not fixed and regular.Further, employees do not get any social security.

Ans to Q No 2: The full form of NCEUS is National Commission for Enterprises in the Unorganised Sector.

Ans to Q No 3: The full form of NCRL is National Commission on Rural Labour.

Ans to Q No 4: The informal workers are those workers who employ whether in the formal sector or informal sector don't get any social security benefits.

Ans to Q No 5: Industrial labourers refer to all those workers, who are employed in manufacturing units.

Ans to Q No 6: The clearly registered first trade union in India was Madras Labour Union formed in 1918.

Ans to Q No 7: Social security is the protection which society provides for its members through a series of public measures against the economic and social distress resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death.

Ans to Q No 8: Five different types of social security available in India are:

i) maternity benefit ii) disablement benefit
iii) sickness benefit iv) medical benefit
v) death relief benefit.

Ans to Q No 9: Labour market is defined as an institutionwhich brings workers and employers into contact of each other and facilitates conditions for the determination of wages and conditions of work.

Ans to Q No 10: Refer to the section 12.10.2.

12.14 MODEL QUESTIONS

Very short questions (Answer each question in about 50 words)

Q 1: What do you mean by informal or unorganised sector?

Q 2: Mention one feature of informal economy.

Q 3: Define informal worker.

Q 4: When did Indian National Trade Union Congress establish?

Q 5: What is the full form of NCEUS?

Q 6: What is the full form of A.I.T.U.C?

Q 7: What do you mean by 'Adjudication'?

Q 8: What do you mean by lockouts?

Q 9: What is conciliation process in settlement of industrial disputes?

Q 10: Mention one major cause of industrial disputes.

Q 11: What do you mean by social security?

Q 12: What do you mean by trade union?

Q 13: When was the first National Commission on Labour set up?

Short Questions (Answer each question in about 150 words)

Q 1: What are the characteristics of Indian informal sector?

Q 2: What do you mean by industrial disputes?

Q 3: What are the main reasons behind industrial dispute in India?

Q 4: What is the present status of agricultural labourers in India?

Q 5: What are the methods of settlement of industrial disputes in India?

Q 6: What are social security measures for welfare of Indian labour?

Q 7: What are the problems of labour market in India?

Q 8: What do you suggest for the betterment of Indian labour market?

Q 9: What are the major recommendations of National Rural Labour Commission?

Q 10: Write short notes on:

a) National commission on rural labour

b) Trade union

c) Social security measures

Long Questions (Answer each question in about 300-500 words)

Q 1: Discuss about the present status of Indian Agricultural labourers.

Q 2: Explain the trade union movement in India.

Q 3: Explain the main causes of industrial disputes in India.

Q 4: How does the industrial disputes settle in India?

Q 5: Discuss the recommendations of National Rural Labour Commission in India.

Q 6: What are the weaknesses of the trade union in India? Explain.

Q 7: Write a note on social security measures undertaken in India for betterment of Indian labour.

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UNIT 13 : PLANNING FOR DEVELOPMENT

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Some Basis Concepts in Planning

- 13.3.1 Need for Planning
- 13.3.2 Types of Planning

13.4 Economic Planning in India

- 13.4.1 The Planning Commission
- 13.4.2 NITI Aayog (Policy Commission)
- 13.4.3 The National Development Council

13.5 Overall Objectives of Planning in India

13.6 An Outline of the Plans in India: Achievement and Failures

13.7 The Twelfth Five Year Plan: Objectives and Targets

- 13.7.1 Major Objectives of the Plan
- 13.7.2 Monitorable Targets of the Plan
- 13.7.3 Sectoral Pattern of Growth under the Twelfth Five Year Plan
- 13.7.4 Targets and Achievements of the Last Five Year Plan: A Critical Assessment

13.8 Let Us Sum Up

13.9 Further Reading

13.10 Answers to Check Your Progress

13.11 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- understand about the emergence of planning in India
- discuss the role of Planning Commission and The National Development Council
- explain about overall objectives, targets, achievements and failures of Five Year Plans in India
- have an insight to the current Five Year Plan n India

13.2 INTRODUCTION

The present thought of economic planning is comparatively new somewhat rooted in Marxian Socialism. The idea of economic planning has been developed by Soviet Union for the first time in 1928 which was given to transform the country in industrial super power. Idea of Economic Planning got strength during the period of great depression in 1930 and Keynes writing also advocated worth of economic planning. The occurrence of Second World War also necessitated the proper and efficient planning of economic resources for the successfully handling aftereffects of war.

13.3 SOME BASIS CONCEPTS IN PLANNING

13.3.1 Need for Planning

In India, the need and importance of planned and coordinated economic development under government supervision was recognized all along the freedom movement. In the 1930's when the freedom struggle was on rise, socio- economic aims also became well defined. The then congress president, Subhash Chandra Bose laid great stress on national planning and appointed a National Planning Committee with Jawaharlal Nehru as its Chairman. The Planning Commission was set up in March, 1950 with Nehru as its Chairman. By 1951, India started planning critically for the future. India adopted a flexible plan strategy in order to bring about a structural and functional transformationunder the leadership of Jawaharlal Nehru.

Overall objectives of Planning in India: Since, India is a developing country achieving full employment with economic development is the prime focus. Accordingly, in almost all the 5 year plans the following objectives are mentioned.

In all developing countries, increase in the state of economic development is the basic objective of economic planning. The level

of Income, saving and investment should be increased to augment the level of capital formation which helps in raising the rate of economic development. Most of the people in developing countries are poor and their income level is also low which reduces the capacity of the people to save. Low saving results in lower level of capital formation. Due to scarcity of capital and lower productivity the rate of investment is low. In this situation two methods can be used one is planned development by importing capital from out of the country which Zweig Calls "Supported industrialization" and the other is by enforced saving which he characterizes as "Self Sufficient Industrialization."India wants to select the second option and therefore some related objectives are formulated as follows.

- **To Eradicate Unemployment:** The need for planning is more stressed by need for eradicating the unemployment in economies. In underdeveloped countries problem of unemployment arises because of capital being limited and labor being abundant. Due to excess labour available, there arises involuntary unemployment in the economy. It can be solved by placing well powerful authority at central level and giving more power to this authority can solve this problem.
- **To Improve and Strengthen Market Mechanism:** The need for planning is to improve and strengthen market mechanism .The market mechanisms works improperly in underdeveloped countries because of the lack of knowledge and unfamiliarity with it. The major parts of economy of under developed country consistof non-monetized sector. The production factors and monetary markets are not organized properly. The price system exist only at very basic level .Therefore planning is required bring a match between demand and supply side of the economy and other resources.
- **Fair progress of the Economy:** In absence of effective efficient planning there is a greater need of setting up institution which is dedicated to only planning of economy. For faster growth of an

economy the agriculture and industrial sector need greater investment,attention, effective policies from the government. Import and Export needs to be kept on checked condition and there should be an effort to balance both import and export so that foreign exchange can be managed effectively.

- **Progress of Agricultural and Industrial sectors:**The necessity for developing the agricultural sector with industrial sector arise from the fact that agriculture and industry are dependent on each other. Growth of agricultural sector will provide plentiful and required raw material to industries.
- **Progress of Money and Capital Market:** Growth of trade depends not only on agricultural and industrial sector, but also with stable growth of other financial institutions. Capital & money markets are undeveloped all the developing countries.The growth of these markets depend on international markets and world economic conditions.
- **Progress in Infrastructure:** For the growth of agricultural and industrial sector the infrastructure need drastic improvements at very high pace.If the Infrastructure lags behind, it will impact the growth of other sectors. For achieving high growth rate in infrastructure in countries like India, public private model can be used more extensively for faster completion of infrastructure projects.

13.3.2 Types of Planning

- **Directional planning**: Countries with socialism beliefs followed the directional type of planning. The targets of plans are pre-determined and executed with the help of the government in power. In this form of planning all the important decisions are taken by the state. In this type of planning all things are under control of state including, financial institutions, industrial sector, transport, and infrastructure.

Faults of Planning by direction:

- It involves bureaucratic system, which is time consuming. Also, there is lack of clarity.
- Markets are under State controls.
- Planning by direction is very inflexible process and there is absence of accountability towards consumers and producers.
- Planning by direction is goal oriented and wants to achieve that at any cost. As a consequence, it becomes very tough to implement and sometimes there is exploitation of resources and manpower which may cause unrest.
- Planning by direction can lead to standardization of process resulting into similar production capacities and processes which diminish innovation.

- **Planning by inducement:** Planning by inducement is sovereign planning. The government in power forms various monetary and fiscal policies to effectively regulate the economy. If the authority want to promote any industry it can subsidy to that industry and its ancillary industries. If authority finds that there is black marketing or scarcity of a particular commodity in market they can take measures to control price and starting rationing of that commodity. To increase the capital it can take up investment and encourage private investors. It can adopt a suitable monetary policy and can fine tune taxation in the system to increase or decrease consumption.

  Faults in planning by Inducement:

  - Sometimes the situation of scarcity of commodity arises and measures of rationing and price control is taken by authority.
  - Monetary and fiscal policies are immaterial to induce development of the economy by raising the rate of capital formation.

- **Perspective planning:** Perspective planning is a plan for longer period of time, 20 to 25 years. It is an outline of development to

be undertaken over a longer period in a phased manner. A perspective plan does not mean that a single plan will continue for entire period of 20 years. In this type of planning targets are framed for particular time period for example five years like five years plan in India they are also known as short period plan. They can further divided into annual plans. These five-year plans generally maintain continuity. They can be further bifurcated as regional plan which pertains to state and districts.

Faults of Perspective planning:

- In perspective type of planning, plans are generally made for long period. Therefore, it is very tough to do necessary adjustment for advancement of the plan.
- Administrative problems are major concern for this kind of planning as it requires highly efficient bureaucracy to implement the plans.

- **Indicative Planning:** Indicative planning is a flexible kind of planning. It is different from comprehensive or imperative planning. It is a decentralized type of planning. There is very less stringency in this structure of planning.

  In Indicative planning the targets for public sector are compulsory while for private sector they are only indicative. But it does not mean that government cannot use its power to influence the private sector in desired direction.It was initially used in countries like France and Japan.

  Fault of Indicative Planning:

  - Indicative planning can only influenced the players involved economic planning.
  - Indicative can turned out to be disaster if not monitored.
  - As in this planning there is not much to do by the authority, some monopolistic players can go for personal benefit without caring about over all system which can cause inflation in the economy.

- **Imperative Planning:** Under imperative planning, the

government in power directs and control all the economic activities and resources in the economy. All resources are used with high efficiency to complete set targets of the plan. In such planning consumer get fixed amount of a commodity at fixed price. Since government decision and policymaking is very rigid they are to be followed by the players. This kind of planning is in use in countries like Russia and China.

- **Democratic planning:** In Democratic planning, plans are prepared according to the requirement and needs of the people. A democratic plan is characterize by discussion with various parties involved in the economy whether different government agencies, private parties or enterprises. This discussion will take place at level of preparation the plan. The plan will be debated at parliament of a country. Main motive of democratic planning is to eradicate inequalities of income and wealth. People enjoy social, political and economic freedom.
- **Fixed planning:** In this type of planning, plans are prepared for fixed period of time. The objectives and targets of fixed plan are to be achieved with in the plan period. While finalizing the budget outlay the physical targets should be keep in the mind because targets and spending on these targets are often not changed except during an emergency.

  Faults of Fixed Planning:

  - There is lack of correlation between available resources and targets of planning. The main aim is to complete financial targets by foreign aid, heavy taxation, large borrowing irrespective of itsailing effects on economy.
  - This system of planning does not take into account future changes in the world economy or any other natural calamity.
  - This type of planning is not so suitable for projects with long execution time frame.
- **Centralized Planning:** Under centralized planning the centralized authority plans and formulates all planning activities

in the country. The authority fixes target for all industries and fix priorities for all sectors. It takes all the investment decisions according to the goals and targets set in the plan. Central authority fixes price for all products.

Faults of Centralized planning:

- Centralized planning has the characteristics of authoritative and undemocratic - bureaucratic control and regulation.

- **Decentralized Planning:** In decentralized planning the plans are executed at grass root level. In this type of planning plan is prepared by central authority with discussion with all the administrative units in the country whether at state level, district level. Similarly, plans for industries are prepared with full conversation with all the major representative stakeholders in the industries. But individual firm are free to take decision on their investment and output prices. There is a freedom of production and consumption under decentralized planning.

  Faults of Decentralized Planning:

  - Its reliance on the market mechanism leads to shortages or surpluses in the production of goods and services.
  - It requires lot of adjustment from government to solve the problems in supply side.
  - It is sometimes, difficult to have coordination between planned & unplanned sectors.

13.4 ECONOMIC PLANNING IN INDIA

Economic planning becomes part of Indian political system much before the introduction of first five-year plan. Book named 'Planned economy for India' written by M. Visheshvraya which is fairly a theoretical development towards economic planning. In his book he published his own suggestions for a ten-year plan for India. He proposed under the Plan to double the income of the country within ten years. The economic history of Indian Planning can be subdivided in the following manner:

- 1947 to the mid 1950s - preparatory phase in planning for development
- Mid 1950 to mid 1960 - rapid industrialization phase in planning
- Late 1960 to 1970 - plans tried to focus on agriculture
- 1980 to 1990- initialization of liberalization in plans
- 1991 to present- liberalization in progress

During the first phase, the main concern was to work out a broad framework for planned development. The Industrial Policy Resolution of 1956 outlined Nehru's vision of a socialistic pattern of society, making the public sector the pivot of Indian Economy. From the third plan, focus shifted to agriculture sector followed by 'Green Revolution' eventually to the trade liberalizations and economic reform.

13.4.1 The Planning Commission

Planning Commission was established on 15th March 1950, as a non-constitutional body with the help of document of government of India. It helps the government in planning procedure and acts as an advisory body. Pandit Jawaharlal Nehru was appointed as the first chairman of planning commission. The prime minister of India is the ex-officio chairman of the commission. There is no fixed tenure for its members and vice chairman. The commission comprises of eight members

Functions

The main functions of planning commissions are as follows:

- It helps in estimating and recognizing the physical, human, and capital resources in the economy and investigates the possibilities of augmenting resources.
- It formulates the plan for the balanced and rapid economic development in the country.
- It helps the government in the allocation of resources to the most needed and weak sector in the country.
- Evaluates plans in its different stages and determines the plans priorities accordingly.

- It gives advice to the centre and the state government on matters for which advice is solicited by them.
- It indicates the factors, which retards the development process of the country.
- It makes additional recommendations as and when necessary. The commission was comprised of eight members:
- Prime Minister (Chairman)
- Four fulltime members (including Deputy Chairman),
- Minister of Planning
- Minister of Finance
- Minister of Defence

With a change in the government at the centre, a new planning commission is always formed.

13.4.2 NITI Aayog (Policy Commission)

NITI (National Institution for Transforming India) was formed 1 January 2015 by the Union Government of India replacing the Planninng Commission. The Prime Minister serves as the Ex-official chairman. The governing council consists of all state Chief Ministers, chief ministers of Delhi and Puducherry, Lieutenant Governor of Andaman and Nicobar, and vice chairman nominated by the Prime Minister. In addition to full members, there are two part-time members and four ex-official members and a chief executive officer. The temporary members are selected from the leading universities and research institutions. The stated aim for NITI Aayog's creation is to foster involvement and participation in the economic policy-making process by the State Governments of India. The emphasis is on bottom-up approach and to make the country moving towards cooperative federalism. The functions of Nity Ayog is almost similar to that of Planning Commission but is complimented with some other functions like

- To develop mechanisms to formulate credible plans at the village

level and aggregate these progressively at higher levels of government.

- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.

13.4.3 The National Development Council

The National Development Council (NDC), has been working as the highest national forum for the economic planning in India since August 6, 1952. Representatives of both the Central and the State government come together in the NDC to finally approve all important decisions relating to planning. The NDC is responsible to approve the draft plan. It also takes final decision regarding the allocation of central allocation for planning among different states.

13.5 OVERALL OBJECTIVES OF PLANNING IN INDIA

In India, the First Five year plan began in the year 1951-52. The first plan highlightedon correcting the disequilibrium in the country caused by second world war and partition of the countryand on attainment of self-

sufficiency in food grain production and to improve availability of raw materials. The objective of second five year plan is also to initiate rapid industrialisation with special reference to basic and heavy industries, to generate more employment opportunities, to reduce the growing inequalities in the distribution of income etc. Thus the exceeding plans were also focusing on development of agriculture, manufacturing sector and enhancing investment on social sector.

Although the objectives of these plans were different, we can identify some of the basic long-term and broad objectives of Indian planning. These are:

- **Raising the growth rate:** The economic planning in India was to bring about rapid economic growth through the growth in agriculture, industry, power, transport and communications and different other sectors in our economy. Further, the growth in real national income was considered to be the basis for an increase in per Capita real income and an improvement in the physical quality of life for, the maximum number of people. The growth, in national output must be higher than the growth rate in population for an increase in per capita output. Indian planners aimed at increasing national income and per capita income on the assumption that the continuous growth in national income and per capita income would remove the problem of poverty and raise the standard of living for the maximum people of the country.
- **Raising the investment-income ratio:** Growth in investment as a proportion of national income was also one of the important long-term objectives of Indian five year plans.
- **Achieving self-reliance:** This objective was considered to be an significant objective for keeping the growth activity free from political pressures of leading capitalist countries of the world. India had to import a enormous quantity of food grains from abroad for a considerable period. Again, she had to depend on foreign countries for the import of heavy machinery,machine tools, hardware, transport equipment, electrical instruments, etc. This was necessary for the expansion of the industrial sector and for building, a strong infrastructural base in

India after independence. Hence, it was quite natural that the developed capitalist countries, supplying food grains, machinery and capital to India, used to take full advantage of their strong bargaining power, by imposing different conditions while extending such help. In many cases, the domestic economic policies are also influenced by such conditions. Because of all these reasons, a self-reliant economic growth became a chief objective of economic planning in India, particularly since the inception of the Third Five Year Plan.

- **Reducing the level of unemployment and incidence of poverty:** Removal of unemployment can be regarded as a precondition for the elimination of poverty.It was assumed by Planning Commission that an increase in investment would accompany not only an increase in national output but also a rise in employment opportunities. This argument was put forward by the Planning Commission quite explicitly during the Third Five Year Plan. The planning commission however, believed that the removal of unemployment would lead to increase in GDP, on the one hand and improve the standard of living of the people on the other.

  Various plan documents have all along indicated that the policy of the Government of India is to reduce the incidence of poverty. The problem of poverty has been conceived as one of low productivity of a large section of the people. Hence, to remove these handicaps of the poor and to integrate them in the growth process, alleviation of poverty became one of the broad objectives of Indian planning.

- **Reducing income inequalities and attaining social justice:** Indian planners visualized the formation of a socialistic pattern of society where each member of the society would get equal opportunities in the fields of education, health, nutrition, occupation, etc. Hence, they felt the need for reducing income and wealth inequalities in our society. These inequalities have their extraction in the feudal system. Hence, reduction in income and wealth necessitated the elimination of semi-feudal relations of production in Indian villages. Thus; the objective was to do away with the 'Zamindari' system, impose ceilings on land-holdings and distribution of surplus land among the landless in rural areas.

Income and wealth inequalities due to industrialization and growth were far more difficult The Planning Commission felt the need for imposing some restrictive and fiscal measures e.g., by imposing higher rates of direct taxes on high incomes, to tackle this problem. The Planning Commission stated its policy towards income inequalities in the Fourth Plan document. It emphasized economic growth with the hope that the poor will benefit from it and thus, income inequalities would be reduced.

- **Modernization of various sectors:** The Sixth plan of India recognized one more objective of modernizing the production process. The implications of this modernization were to shift the sectoral comparison of national income, diversification of productive activities and advancement of technology.

  Modernization, as per the view of the Planning Commission, also implied introduction of modern technology, both in industrial and agricultural activities. It also implied an emergence of new types of banking, insurance and marketing institutions, which would facilitate the dynamics of growth process.

- **Redressing Imbalance in the Economy:** Regional disparity and imbalances in the economy became so acute in India that they needed special attention in our five-year plans.

  The second, third, fourth and five year plans have tried to achieve this objective and subsequently other plans are till focusing on this. In fact, every plan has special package for less developed regions of our country.



CHECK YOUR PROGRESS

Q 1: What is the 12th Plan Period ?

a) 2007-2012 b) 1997-2002

c) 2002-2007 d) 2012-2017

Q 2: National Development Council consists of

a) Members of Planning Commission

b) Governors of the states c) Chief Ministers of the states

d) a) and c)

Q 3: What was the prime target of First Five Year Plan of India?
a) Development of Industries b) Development of Agriculture
c) Development of Infrastructure d) Development of Rural area

Q 4: Planning commission was established as .....on.....
A. Non-constitutional body, 15th march 1950
B. Constitutional body, 15th march 1950
C. Non statutory body, 15th march 1951
D. Statutory body, 15th march 1951

Q 5: Which type of planning is a blueprint of development over a longer period of time?
a) Centralized planning b) Decentralized planning
c) Annual planning d) Perspective planning

Q 6: Which of the following type of planning is also known as soft planning due to minimum rigidity in its structure?
a) Indicative planning b) Perspective planning
c) Physical planning d) Financial planning

Q 7: Which of the following planning is executed at the grass root level?
a)Centralized planning b) Decentralized planning
c) Fixed planning d) Imperative planning

13.6 AN OUTLINE OF THE PLANS IN INDIA: ACHIEVEMENTS AND FAILURES

Seventy years of planning experience has witnessed achievements and failures in different sectors of the economy. At best, the planning experience has proved to be a mixed blessing.

Achivements: Major achievements and failures of Indian Planning are as follows:

- Increase in food grain production from 50 million tonnes in 1950-51 to 208.9 million tonnes in 1999-2000 and to 272 million tones in 2016-17.
- India has successfully maintained a reasonable degree of price stability with the help of planning and the annual rate of inflation is maintained around 4% (current year inflation is 4.83).
- By setting up the public enterprises at the backward areas of the country, it has helped these areas in terms of development of infrastructure,

employment opportunities and growth of ancillary industries.

- With the help of rural development and rural employment schemes, the planning in India has tried to eradicate poverty and inequality.
- The composition of national income has changed graduallyover the planning years. While the share of agriculture and allied activities in the GDP has declined , that of the tertiary sector has increased.

Failures:

- In spite of achievements, economic planning has performed poorly in several areas like still India is having a massive backlog of unemployment in rural and as well as in urban areas.
- The benefits of planning and consequent development have not trickled down to the poorest sections of society
- The growth of black money in urban areas has led to a wasteful expenditure along with the menace of corruption.
- The internal as well as external debt of India has reached at alarming level with huge budget deficit of chronic nature.
- Regional disparity has not been removed so far after so much of policies and initiatives.

13.7 THE TWELFTH FIVE YEAR PLAN (2012-17)

The Twelfth Plan commenced at a time when the global economy was sufferingthrough a second financial crisis due to the sovereign debt problems of the Eurozone which was initiated in the last year of the Eleventh Plan. Almost all the countries were affected by the crisis including India. Our growth slowed down to 6.2 percent in 2011-12 and the deceleration continued into the first year of the Twelfth Plan, when the economy is estimated to have grown by only 5 percent . The Twelfth Plan therefore,state that our first priority must be to bring the economy back to rapid growth which is both inclusive and sustainable. The broad vision and aspirations which the Twelfth Plan seeks to fulfil are reflected in the subtitle: 'Faster, Sustainable, and More Inclusive Growth'. Inclusiveness is to be achieved through poverty reduction, promoting group equality and regional balance,

reducing inequality, empowering people etc whereas sustainability includes ensuring environmental sustainability ,development of human capital through improved health, education, skill development, nutrition, information technology etc and development of institutional capabilities , infrastructure like power telecommunication, roads, transport etc ,

Apart from the global slowdown, the domestic economy has also amass against several internal constraints. Macro-economic imbalances have surfaced following the fiscal expansion undertaken after 2008 to give a fiscal stimulus to the economy andinflationary pressures have built up. Major investment projects in energy and transport have slowed down because of a variety of implementation problems. Some changes in tax treatment in the 2012-13 have caused uncertainty among investors.These developments have produced a reduction in the rate of investment, and a slowing down of economic growth.

The policy challenge in the Twelfth Plan is, therefore, two-fold. The immediate challenge is to reverse the observed deceleration in growth by reviving investment as quickly as possible.

13.7.1 Major Objectives of the Plan

Immediate priority is to revive the investor sentiment along with next short term action of removing the impediments to implementation of projects in infrastructure, especially in the area of energy which would require addressing the issue of fuel supply to power stations, financial problems and clarity in terms of new exploration.

The Twelfth Plan lays out an ambitious set of Government programmes, which will help to achieve the objective of rapid and inclusive growth. Considering the scarcity of resources, it is essential to take bold steps to improve the efficiency of public expenditure through plan programmes.

Need for fiscal correction has been felt and introduction of tax reforms like GST, reduction of subsidies as per cent of GDP while still allowing for targeted subsidies and managing the current

account deficit would be another chief concerns.

Achieving sustained growth would require long term increase in investment and savings rate.

13.7.2 Monitorable Targets of the Plan

Twenty Five core indicatorshave been listed by the Twelfth Five Year plan (FYP)which reflect the vision of rapid, sustainable & more Inclusive growth of the twelfth Plan as follows:

Economic Growth

- Real GDP Growth Rate of 8.0 per cent.
- Agriculture Growth Rate of 4.0 per cent.
- Manufacturing Growth Rate of 10.0 per cent.
- Every State must have an average growth rate in the Twelfth Plan preferably higher than that achieved in the Eleventh Plan.

Poverty and Unemployment

- Head-count ratio of consumption poverty to be reduced by 10 percentage points over the preceding estimates by the end of Twelfth FYP.
- Generate 50 million new work opportunities in the non-farm sector and provide skill certification to equivalent numbers during the Twelfth FYP.

Education

- Mean Years of Schooling to increase to seven years by the end of Twelfth FYP.
- Enhance access to higher education by creating two million additional seats for each age cohort aligned to the skill needs of the economy.
- Eliminate gender and social gap in school enrolment (that is, between girls and boys, and between SCs, STs, Muslims and the rest of the population) by the end of Twelfth FYP.

Health

- Reduce IMR to 25 and MMR to 1 per 1,000 live births, and improve

Child Sex Ratio (0-6 years)to 950 by the end of the Twelfth FYP.

- Reduce Total Fertility Rate to 2.1 by the end of Twelfth FYP.
- Reduce under-nutrition among children aged 0-3 years to half of the NFHS-3 levels by the end of Twelfth FYP.

Infrastructure, Including Rural Infrastructure

- Increase investment in infrastructure as a percentage of GDP to 9 per cent by the end of Twelfth FYP.
- Increase the Gross Irrigated Area from 90 million hectare to 103 million hectare by the end of Twelfth FYP.
- Provide electricity to all villages and reduce AT&C losses to 20 per cent by the end of Twelfth FYP.
- Connect all villages with all-weather roads by the end of Twelfth FYP.
- Upgrade national and state highways to the minimum two-lane standard by the end of Twelfth FYP.
- Complete Eastern and Western Dedicated Freight Corridors by the end of Twelfth FYP.
- Increase rural tele-density to 70 per cent by the end of Twelfth FYP.
- Ensure 50 per cent of rural population has access to 40 lpcd piped drinking water supply, and 50 per cent gram panchayats achieve Nirmal Gram Status by the end of Twelfth FYP.

Environment and Sustainability

- Increase green cover (as measured by satellite imagery) by 1 million hectare every year during the Twelfth FYP.
- Add 30,000 MW of renewable energy capacity in the Twelfth Plan
- Reduce emission intensity of GDP in line with the target of 20 per cent to 25 per cent reduction over 2005 levels by 2020.

Service Delivery

- Provide access to banking services to 90 per cent Indian households by the end of Twelfth FYP.

- Major subsidies and welfare related beneficiary payments to be shifted to a direct cash transferby the end of the Twelfth Plan, using the Aadhar platform with linked bank accounts.

13.7.3 Sectoral Pattern of Growth under the Twelfth Five Year Plan

The sectoral pattern of growth associated with the 8.0 per cent growth is as follows:

- The Agriculture Forestry and Fishing Sector is projected to grow at 4 per cent, an improvement over the 3.7 per cent rate achieved in the Eleventh Plan.
- The Mining and Quarrying Sector grew by only 3.2 per cent in the Eleventh Plan, the growth rate being pushed down by negative growth of 0.6 per cent in 2011-12 reflecting problems in the iron ore sector, gas production and also coal. The Twelfth Plan assumes a substantial improvement with the growth rate averaging 5.7 per cent. The manufacturing sector decelerated in the course of the Eleventh Plan with a growth rate of only 2.7 per cent in 2011-12. The average growth rate in the Twelfth Plan period is projected at over 7 per cent which is a significant improvement over the situation in 2011-12 and 2012-13.
- Gas and water supply are projected to grow at 7.3 per cent on an average compared with 6.1. per cent achieved in the Eleventh Plan.
- Construction, which grew at 7.7 per cent in the Eleventh Plan, is projected to grow at an average rate of 9.1 per cent.
- The other service sectors are projected to grow fairly robustly with Trade Hotels and Restaurants at 7.4 per cent.
- Transport, Storage and Communication growth is at 11.8 per cent.
- Insurance and Business Service growth is at 9.9 per cent, and, finally, Community and Personal Services at 7.2 per cent.

13.7.4 Targets and Achievements of the Last Five Year Plan: A Critical Assessment

There have been quite a lot of important developments during the Eleventh Plan that have implications for financing of the Twelfth Plan. The Indian Economy robustly faced the global financial crisis of 2008. However, slower growth adversely impacts growth in Centre's resources, particularly taxes. The Sixth Central Pay Commission award has been implemented. The 13th FC award for 2011-15 is under implementation with some changes in the fiscal responsibility and budget management framework targets. Service tax has emerged as a very hopeful source of revenue. Efforts have been made to introduce unified Goods and Service Tax (GST) in consultation with States. This will be a major reform of the indirect tax system. The projection of fiscal deficits based on Medium Term Fiscal Policy Statement 2012-13 indicates that debt resources for funding of GBS for the Twelfth Plan will be higher initially but is projected to decline gradually. The Centre's net borrowing which was 5.9 per cent of GDP in 2011-12 (RE) is estimated to decline to 5.1 per cent of GDP in 2012-13 (BE). The fiscal deficit as percent of GDP is further projected to decline to 4.5 per cent in 2013-14, 3.9 per cent in 2014-15, 3.2 per cent in 2015-16 and 3.0 per cent of GDP in the last year of the Twelfth Plan.



13.8 LET US SUM UP

- The idea of economic planning has been developed by Soviet Union for the first time in 1928 which was given to transform the country in industrial super power.
- In India, the need and importance of planned and coordinated economic development under government supervision was recognized all along the freedom movement.
- The Planning Commission was set up in March, 1950 with Nehru as its

Chairman. By 1951, India started planning critically for the future.

- To achieve Economic Development, eradicate Unemployment, improve and strengthen market mechanism along with a fair progress of the economy, progress of Agricultural and Industrial sectors, progress of Money and Capital Market, progress in Infrastructure are some of the objectives of the various plans in India.
- Planning Commission was established on 15th March 1950, as a non-constitutional body with the help of document of government of India. It helps the government in planning procedure and acts as an advisory body.
- NITI (National Institution for Transforming India) was formed 1 January 2015 by the Union Government of India replacing the Planninng Commission. The Prime Minister serves as the Ex-official chairman. The governing council consists of all state Chief Ministers, chief ministers of Delhi and Pondicherry, Lieutenant Governor of Andaman and Nicobar, and vice chairman nominated by the Prime Minister. In addition to full members, there are two part-time members and four ex-official members and a chief executive officer.
- In India, the First Five year plan began in the year 1951-52. The first plan emphasized on correcting the disequilibrium in the country caused by second world war and partition of the country and on attainment of self-sufficiency in food grain production and to improve availability of raw materials.
- The Twelfth Plan commenced at a time when the global economy was sufferingthrough a second financial crisis due to the sovereign debt problems of the Eurozone which erupted in the last year of the Eleventh Plan.
- The Twelfth Plan therefore,state that our first priority must be to bring the economy back to rapid growth which is both inclusive and sustainable.

13.9 FURTHER READING

1) Dhar, P.K. (2018). Indian Economy: Its Growing Dimension. New Delhi: Kalyani Publishers.
2) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.
3) Misra, S.K. & Puri, V.K. (2018). Indian Economy. New Delhi: Himalya Publishing House.

13.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: c) 2002-07

Ans to Q No 2: d) a) and c)

Ans to Q No 3: (b)

Ans to Q No 4: a)

Ans to Q No 5: d)

Ans to Q No 6: a)

Ans to Q No 7: b)

13.11 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Write a short note on Planning Commission

Q 2: Discuss about the failures of economic Planning in India.

Q 3: Discuss about various types of planning.

Q 4: What is decentralized planning? State its merits and demerits.

Long Questions (Answer each question in about 300-500 words)

Q 1: Explain the main objectives as incorporated in the various five year plans in India.

Q 2: Critically examine the approach of 12th Five Year Plan in India.

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UNIT 14 : ECONOMIC REFORMS AND GLOBALISATION

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Economic Crisis prior to 1991 Economic Reforms

14.4 New Economic Policy of 1991

14.5 Indian Economy since Economic Reforms

14.6 Let Us Sum Up

14.7 Further Reading

14.8 Answers to Check Your Progress

14.9 Model Questions

14.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- derive the rationale for economic reforms in 1991,
- discuss the main contents of 1991 economic reforms, and
- critically analyse the impact of economic reforms on Indian economy.

14.2 INTRODUCTION

After four decades of central planning, characterized by commandeering heights of the public sector, license raj, myriad of control, and inward looking strategy, India embarked on the path of economic reform in 1991. The historic economic reforms were initiated by Dr. Manmohan Singh who was the Finance Minister in the P.V.Narasimha Rao led Government. The reforms that began our journey from plan to market economy started with the announcement of the New Industrial Policy, 1991 on July 24, 1991 that sought to “unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls”. Since then, India has come a long way and continues to tread along its chosen path of liberalisation, privatisation, and globalisation. In this unit, we shall discuss

the reforms that were initiated in the year 1991. In the first section we shall briefly dwell on the rationale for going for such radical reforms – the factors that justified it. Then, we will point out the main contents of the reforms in the subsequent section. In the final part, we will highlight the main impacts of the reforms- their success and perceived failures.

14.3 ECONOMIC CRISIS PRIOR TO 1991 ECONOMIC REFORMS

By June 1991, Indian economy reached a stage of deep crisis. It was brought on by the Gulf War, lack of financial discipline of earlier governments, failure of monsoons, and accumulated external payment obligations. For the first time in history, India was close to defaulting on its international commitments. India's credit ratings were downgraded and she could not borrow from external commercial markets.

The crisis was exaggerated by the annual rate of inflation that had touched 17% by August, 1991. Foreign exchange reserves plummeted to a little above US$1billion which was barely sufficient to meet the country's import bill for a week. Fiscal deficit had reached the unsustainable level of 8.4% of the GDP. The Current Account deficit in the Balance of Payment (BOP) was about US$10 billion.

Though the immediate crisis that prompted the announcement of historic New Economic Policy originated in the external sector, the domestic scenario was also extremely discouraging. Failure of monsoon, high rate of inflation, unsustainable fiscal deficit, high debt-GDP ratio, BOP crisis as a fall out of the fall in remittances from the Gulf and failure to improve export, drying up of external funding sources, precarious foreign exchange reserve situation – all created a situation that called for urgent drastic changes the way economic activities are carried out in the economy. But it is important to note that the crisis that prompted the Government of India to embark on the path of reforms did not occur over night. It was the culmination of decades of mismanagement, faulty approach, and a lack of a pragmatic and comprehensive programme to take the economy along the desired line in

the fast changing dynamic world. A kind of lethargy was getting in built into the system that was captured by the so called "Hindu Rate of Growth" of about 3.5% that kept the growth of per capita income at a meager 1.5% per annum even after four decades of planning. The factors responsible for such a sorry state of affairs constitute both the background of the crisis of 1991 and the rationale for the economic reforms that were bold and path breaking. In the following we shall briefly discuss some of these important factors.

- **Unsatisfactory Development:** Despite four decades of planning and hundreds of programmes of poverty alleviation, vast majority of the population lived in abject poverty and thereby resulted in a loss of potential human resource and continued and increasing the burden of the State. There were 260 million (about 26% of population) people living below the poverty line. This implied low literacy, low life expectancy, as well as very poor standard of living. Not only this, whatever development had occurred was distributed very unevenly. As a result there were growing inequalities between classes, between regions, and between rural and urban areas. This created socio economic dualism which was detrimental to growth and progress.
- **Faulty Methods:** The ills in the developmental front could be traced to methods adopted for development. Control cum regulation mechanism had turned out to be the biggest hurdle in the growth of genuine entrepreneurs, dynamic investors, efficient managers, and hard working laborers. The public sector was decaying under bureaucratic functioning, time consuming procedures that were inflicting a huge burden on the government's treasury. Over the years, a well entrenched vested interest had emerged that were simply anti development. There was an absolute lack of economic vision, economic leadership which led to sub optimal use and even outright plundering of precious resources.
- **Non Plan Expenditure:** Apart from the ever increasing burden of interest payment, subsidies, and defense expenditure, the non plan expenditure of the Government was increasing year after year. This added to the

fiscal deficit with its disastrous consequences of high debt burden and inflation.

- **Capital Inadequacy:** Given the low level of economic development of the country, the capital requirement was huge to make it a modern, dynamic and growing economy. But such enormous amount of capital could not be raised internally. This meant that capital has to come from external sources. But borrowing will only mean adding to the already ballooning debt burden. Thus the need of the hour was to attract foreign private capital. This required opening up of the economy to the world, thereby reversing the age old inward looking strategy. The import liberalisation, devaluation of the currency, incentives for both foreign portfolio investment and foreign direct investment were the only way out to meet the scarcity of foreign exchange and unproductive protection of domestic industries.



CHECK YOUR PROGRESS

Q 1: What was the foreign exchange reserve of our country in June, 1991?

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Q 2: What is meant by the term 'Hindu Rate of Growth'? (Answer in about 30 words)

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Q 3: What was the immediate crisis that resulted in the economic reforms of 1991? (Answer in about 40 words)

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Q 4: State four factors responsible for creating the 1991 crisis. (Answer in about 50 words)

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14.4 NEW ECONOMIC POLICY OF 1991

The New Economic Policy was launched by Dr.Manmohan Singh in his June, 1991 budget as the Finance Minister of India. This ushered in an era of economic reforms in India which can be broadly classified into the following two groups :

- A short term stabilisation programme to bring the economy back on track.
- A medium to long term structural adjustment programme to correct structural rigidities and bottlenecks in the economy.

In the following, we are shall elaborate on these two aspects.

Stabilisation Programme: The aim of this programme was to control inflation and remove the Balance of Payment (BOP) deficit. It consisted of four distinct areas of actions. These are: fiscal policy, monetary policy, exchange rate policy, and social sector policy.

In fiscal policy, the objective was to reduce the government's fiscal deficit by reducing government expenditure on the one hand and increasing the tax base on the other. An ambitious target of lowering the fiscal deficit from 8.4% in 1991 to 5% of Gross Domestic Product (GDP) was fixed. A review of food and fertilizer subsidies was undertaken. The Chelliah Committee was appointed to look into the taxation structure and suggest measures to augment revenue. As a result of these measures, fiscal deficit fell to 6% in 1991-92 and to 5.6% in 1992-93.

In monetary policy, credit was tightened by increasing interest rates. The Narasimham Committee was appointed to recommend measures for financial sector reforms. The RBI was given more autonomy and automatic monetisation of government's deficit was given up.

In order to correct the exchange rate, Rupee was devalued by 23%. In February the Government of India announced the Liberalized Exchange

Rate Management System (LERMS) to promote trade. In the next stage Rupee was made convertible on current account in 1994-95 budget.

In the social sector, the experience of African and Latin American countries had shown the stabilisation programme made the poor suffer disproportionately. Drastic cuts in subsidies and increase in taxation impoverish the weaker and vulnerable sections more. Consequently the international organisations like the UNICEF recommended adoption of a stabilisation programme with a 'humane face'. In view of this, Indian reformers built into the reform package measures to protect the vulnerable sections from the fall out of macro economic adjustment. The allocation for merit goods and poverty alleviation schemes was increased. A social safety net programme was launched consisting of Employment Assurance Scheme (EAS), Prime Minister Rojgar Yojana (PMRY), National Social Assistance Programme(NSAP), Mahila Samriddhi Yojana(MSY), and Indira Mahila Yojana(IMY). The Public Distribution System (PDS) was revamped for targeting the deserving beneficiaries.

Structural Adjustment : Structural adjustment consisted of industrial policy liberalisation, public sector reforms, financial sector reforms, and trade policy reforms.

A path breaking new industrial policy was announced in July 1991 with the abolition of licensing of industries on virtually all items except those involving environmental problems or involving national security. The MRTP (Monopolies and Restrictive Trade Practices) Act was liberalized to encourage investment by large industrial houses. As a follow up to this, recently, a new Competition Act has replaced the MRTP Act. Measures were taken to encourage foreign direct investment (FDI) by replacing Foreign Exchange Regulation Act (FERA) by Foreign Exchange Management Act (FEMA) and making foreign investment and collaboration automatic in most cases.

The public sector reforms include getting out of areas where the public sector will be more efficient and disinvestment of equity in selected units. The list of industries reserved for the public sector was reduced from 17 to 6. Subsequently it has been brought down further to 3 items – atomic

energy, some substances used for atomic energy, and railway transport. Even the defense industry has been opened up for the private sector with FDI permissible up to 26% ownership share. The Memorandum of Understanding (MOU) system of monitoring public sector units was introduced. Social safety network has been put in place to protect workers from the adverse effect of restructuring the public sector units.

The financial sector reforms are based on the recommendations of the Narasimham Committee. The main features of these reforms are :

- unshackling of the banking system from excessive government control;
- curtailment of government tendency to rely on credit control measures (like Cash Reserve Ratio, Statutory Liquidity Ratio) and extra budgetary sources of inexpensive credit
- Signing of MOU with the RBI on discontinuation of adhoc treasury bills (1994).

The capital market reforms started with the establishment of Security Exchange Board of India (SEBI) in February, 1992. The other major steps were permitting Foreign Institutional Investors(FIIs) to undertake portfolio investment and letting Indian companies to undertake Euro issues. Over the years several reforms have been introduced in the capital market with SEBI playing a very active role. At present the Indian capital market has become more or less scam free. Defective practices like P note (participatory note) issues etc. have been rectified. As of now, the Indian stock market has been one of the strongest and best performing markets in the world. The primary market is also robust, and thanks to the strength of the macro fundamentals of the Indian economy, the Indian stock market is said to be in a structural bull run.

The trade policy reforms led to major changes in the import licensing system. Except for consumer goods, all non-tariff barriers (NTBs) have been lifted. Peak tariff rates have been brought down from 355% to about 50%. As a signatory of World Trade Organisation (WTO) agreement, India is committed to bring the tariff rate further down.



CHECK YOUR PROGRESS

Q 5: When and by whom the New Economic Policy of India was announced? (Answer in about 20 words)

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Q 6: State two broad components of economic reforms of 1991. (Answer in about 40 words)

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Q 7: State the four distinct areas of actions under the stabilisation programme. Name the components of structural adjustments under the 1991 reforms. (Answer in about 50 words)

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14.5 INDIAN ECONOMY SINCE ECONOMIC REFORMS

Post 1991, the Indian economy has shown many positive features and increasingly establishing itself as a leading emerging market in the world. The positive outcomes of the economic reforms so far may be summarized as follows:

- The rate of growth of GDP has increased appreciably during the reform period. The annual average rate of growth of GDP during 1980-91 was only 5.8%. This has gone up to 7.2% during 2001-07 which is the second largest in the world. During the 2007-08 GDP grew by about 9%. For the Eleventh Five Year Plan the GDP is expected to be on a higher

growth trajectory of about 9%. The immediate aim of our policy makers is to reach the double digit rate of growth at the earliest. Thus the days of the Hindu rate of growth seem to be finally over.

- The Indian industry grew at the rate of 8.1% during reform decade as against 7% during 1980s. The rate would have been higher but for the deceleration in the industrial sector during 1996-97, 1997-98, and 1998-99. Industrial growth has averaged about 9.5% since 2004-05.
- The growth in agricultural sector has not been uniform, ranging from 0.7% in 1997-98 to 9.1% in 2003-04 and presently about -2.8%. But there has been considerable diversification in this sector.
- The Foreign Direct Investment (FDI) jumped from US$200 million in 1991 to US$14.6 billion in 1997. The flow of foreign capital during the reform period can be gauged from the fact that from a mere US$1billion as foreign exchange reserve (forex reserve) in 1991, the total forex reserve has gone up now to about US$300billion.
- The fiscal deficit has been brought down to manageable level i.e. below 6% of the GDP from the unsustainable level of 7-8% during 1985-91. With the passing of Fiscal Responsibility and Budgetary Management (FRBM) Act, 2003, the government is now legally bound to bring the fiscal deficit down to 3%. However, due to the exceptional circumstances created by the Great Recession (2007-09) , the fiscal deficit has gone up to 6.8% in 2009-10, but targeted to be brought down to about 4% in 2012-13.
- The proportion of trade in India's GDP has gone up from 14% in 1990-91 to 18% in 1998-99. This has been achieved by consistent high growth of imports and exports. In recent years, exports have grown by about 20%, while imports have increased by 25-26%.

However, despite the above mentioned achievements, critics point out that the reforms have not been an unmixed blessing. The following issues are raised in this context.

- The impressive growth rate of the GDP has only led to the widening of the gap between the rich and the poor. All available evidence show that the pace of decline in rural poverty has slackened in the post reform

period, as compared to the 1980s. Urban poverty, however, appears to have declined faster during the reform period. Thus, the reform process appears to have an urban bias.

- The fiscal discipline, as indicated by the fall in fiscal deficit, has been achieved through drastic reduction in public investment, particularly in the social sector, rather than through cutting down of wasteful government expenditure. In the year 2000-01 alone, the shortfall was about Rs.19,000 crore. The cut mostly fell on agriculture and rural development.
- Critics also point out that in many FDI, money has flown from parent companies to their subsidiaries. This has been through the device of acquiring the shares of the subsidiaries by the parent companies at below market price. Such companies then have proceeded to introduce new consumer products and compete with domestic manufactures of similar products. It is also true that the contribution of the Multi National Corporations (MNCs) to the exports from the country has not been impressive.
- There has been lot of associated pains and apprehension with structural reforms. For example, in our country we still do not have an effective social safety network against loss of industrial employment as a result of the reform process.
- The disinvestment policy of the government has not taken off as anticipated. This has resulted in borrowed funds, continuing to sustain the unviable public sector undertakings (PSUs), pending their eventual divestment.
- Conservative observers also point out that the reforms have exposed the Indian economy to the unpredictable fluctuations in different economies of the world. Despite our growth being driven mostly by domestic demand, our capital market is increasingly exposed to the interest rate changes in the federal reserve system of the USA, the Balance of Payment (BOP) situation in Japan, expectation of growth in China , and problems like that of sub prime loans in the USA. This curtails, critics maintain, the much 'desirable' isolation of a developing economy from external disturbances.



CHECK YOUR PROGRESS

Q 8: Which is the second fastest growing economy in the world?

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Q 9: Write the full form of FRBM?

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Q 10: What have been the average rates of growth of imports and export of India in recent years? (Answer in about 30 words)

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Q 11: State two principal failures of Indian economic reforms so far. (Answer in about 50 words)

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14.6 LET US SUM UP

- India embarked on the path of economic reform in 1991. The historic economic reforms were initiated by Dr.Manmohan Singh who was the Finance Minister in the P.V.Narasimha Rao led Government. The reforms that began our journey from plan to market started with announcement of the New Industrial Policy, 1991 on July 24, 1991 that sought to "unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls".
- By June 1991, Indian economy reached a stage of deep crisis. It was brought on by the Gulf War, lack of financial discipline of earlier governments, failure of monsoons, and accumulated external payment obligations. For the first time in history, India was close to defaulting on

its international commitments. India's credit ratings were downgraded and she could not borrow from external commercial markets.

- The crisis was exacerbated by the annual rate of inflation that had touched 17% by August, 1991. Foreign exchange reserves plummeted to a little above US$1billion which was barely sufficient to meet the country's import bill for a week. Fiscal deficit had reached the unsustainable level of 8.4% of the GDP. The Current Account deficit in the Balance of Payment (BOP) was about US$10 billion.
- The crisis that prompted the Government of India to embark on the path of reforms did not occur over night. It was the culmination of decades of mismanagement, faulty approach, and a lack of a pragmatic and comprehensive programme to take the economy along the desired line in the fast changing dynamic world. A kind of lethargy was getting in built into the system that was captured by the so called "Hindu Rate of Growth" of about 3.5 % that kept the growth of per capita income at a meager 1.5 % per annum even after four decades of planning.
- The economic reforms in India can be broadly classified into the following two groups :
  - Short term stabilisation programmes to bring the economy back on track.
  - Medium to long term structural adjustment programme to correct structural rigidities and bottlenecks in the economy.
- The aim of Stabilisation was to control inflation and remove the Balance of Payment (BOP) deficit. It consisted of four distinct areas of actions. These are: fiscal policy, monetary policy, exchange rate policy, and social sector policy. Structural adjustment consisted of industrial policy liberalisation, public sector reforms, financial sector reforms, and trade policy reforms.
- The principal achievements of the economic reforms have been : appreciable increase in the growth rate of GDP, more than 8% growth in the industries on an average, diversification of agriculture, quantum jump in the flow of FDI and consequent increase in India's foreign exchange reserves, reduction in fiscal deficit and enactment of FRBM

Act, and substantial increase in the share of foreign trade in our GDP.

- However there have been certain negative fall outs of theses reforms. Important ones are: widening of the gap between the rich and the poor, drastic reduction in public investment, particularly in the social sector, unimpressive contributions of the MNCs to exports, suffering of laid off work force in absence of social safety network, slow progress in divestment of PSUs, and exposure of the Indian economy to international disturbances.



14.7 FURTHER READING

1) Agrawal, A. N. (2019). *Indian Economy: Developmental Problems and Policies.* New Delhi: New Age International Publishers.
2) Datt, G and Mahajan, A. (2016). *Datt & Sundharam's Indian Economy.* New Delhi: S. Chand & Co.
3) Kapila, U. (2003). *Indian Economy since Independence.* New Delhi: Academic Foundation.
4) Misra, S.K. & Puri, V.K. (2018). *Indian Economy.* New Delhi: Himalya Publishing House.



14.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1 : It was a little above US$1billion which was barely sufficient to meet the country's import bill for a week.

Ans to Q No 2 : The "Hindu Rate of Growth" refers to the sluggish growth rate of GDP of India which was about 3.5 % that kept the growth of per capita income at a meager 1.5 % per annum in the first four decades of planning.

Ans to Q No 3 : It was a situation when India was close to defaulting on its international commitments for the first time in history. India's credit ratings were downgraded and she could not borrow from external commercial markets.

Ans to Q No 4 : The four prominent factors are: the Gulf War, lack of financial discipline of earlier governments, failure of monsoons, and accumulated

external payment obligations

Ans to Q No 5 : The New Economic Policy was announced by Dr.Manmohan Singh in his June, 1991 budget as the Finance Minister of India.

Ans to Q No 6 : A short term stabilisation programme to bring the economy back on track and a medium to long term structural adjustment programme to correct structural rigidities and bottlenecks in the economy.

Ans to Q No 7 : The four distinct areas are: fiscal policy, monetary policy, exchange rate policy, and social sector policy.

Ans to Q No 8 : India.

Ans to Q No 9 : Fiscal Responsibility and Budgetary Management.

Ans to Q No 10 : About 20% per annum.

Ans to Q No 11 : Widening of the gap between the rich and the poor, and drastic reduction in public investment, particularly in the social sector.

14.9 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1 : Write a short note on economic crisis prior to economic reforms of 1991.

Q 2 : Prepare a brief note on structural adjustment programme.

Essay-type Questions (Answer each question in about 300-500 words)

Q 1 : Write a note justifying the Indian economic reforms of 1991.

Q 2 : Discuss the various measures undertaken for structural adjustment programme.

Q 3 : Outline the steps taken for the stabilisation programme under economic reforms.

Q 4 : Critically examine the impact of economic reforms on the Indian economy.

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UNIT 15 : WORLD TRADE ORGANISATION AND ITS IMPLICATIONS FOR INDIA

UNIT STRUCTURE

15.1 Learning Objectives

15.2 Introduction

15.3 World Trade Organisation (WTO) and Its Functions

15.4 Agreements Implemented under the WTO

15.5 Implications for India

15.6 Let Us Sum Up

15.7 Further Reading

15.8 Answers to Check Your Progress

15.9 Model Questions

15.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe what is WTO and explain its functions
- state the principal agreements that govern the functions of the WTO
- critically explain the impact of the agreements implemented by the WTO on the Indian economy.

15.2 INTRODUCTION

This unit introduces you to the World Trade Organisation (WTO). The World Trade Organisation is the only global international organisation that deals with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by most of the world's trading nations and ratified in their parliaments. The goal is to help the producers of goods and services, exporters, and the importers to conduct their business. It came into being after the conclusion of Uruguay round of talks under General Agreement on Tariff and Trade (GATT) on 1st January, 1995. At present WTO has 153 member countries. It has caused far reaching impact on the global economy and also on the individual member countries. In this unit

we will attempt to give an elementary introduction to the organisation and its primary functions. The main agreements that constitute the WTO are briefly summarized. In the final section, we shall discuss the benefits and potential threats for India from the Indian point of view and how best India can maximize its gains.

15.3 WORLD TRADE ORGANISATION (WTO) AND ITS FUNCTIONS

The establishment of WTO is the latest attempt of the international community to establish a rule-based mechanism of international transaction of goods and services, with a view to enhancing the world economic welfare. However, since its inception the WTO has encountered controversy and more often than not the member countries have agreed to disagree. But it is to be recognized that the stature of this organisation will only grow with passage of time and it will influence all the trading countries of the world including India.

The WTO is a single multilateral framework encompassing the following :

- The GATT as modified by the Uruguay Round,
- All agreements and arrangements concluded under its auspices, and
- The complete results of ***Uruguay Round.***

The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application. The current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties). More specifically, the WTO's main activities are:

- **negotiating** the reduction or elimination of obstacles to trade (import



The ***Uruguay Round*** was the 8th round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986-1994 and embracing 123 countries as "contracting parties". The Round transformed the GATT into the World Trade Organization.

tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. anti-dumping, subsidies, product standards, etc.)

- **administering and monitoring** the application of the WTO's agreed rules for trade in goods, trade in services, and trade-related intellectual property rights.
- **monitoring and reviewing** the trade policies of the members, as well as ensuring transparency of regional and bilateral trade agreements.
- **settling disputes** among the members regarding the interpretation and application of the agreements.
- **building capacity** of developing country government officials in international trade matters.
- **assisting** the process of accession of some 30 countries who are not yet members of the organisation.
- **conducting** economic research and **collecting** and **disseminating** trade data in support of the WTO's other main activities.
- **explaining** to and **educating** the public about the WTO, its mission and its activities.



CHECK YOUR PROGRESS

Q 1: In which year did the WTO come into being?

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Q 2: What is the member strength of the WTO?

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Q 3: State two functions of the WTO. (Answer in about 50 words)

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15.4 AGREEMENTS IMPLEMENTED UNDER THE WTO

The World Trade Organisation oversees some 30 diverse agreements that have the status of international legal texts. All these agreements must be signed and ratified by WTO member states on accession. Some of the most important WTO agreements include the General Agreement on Trade in Services (GATS), the Agreement on Agriculture, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Agreement on Trade Related Aspects of Investment Measures (TRIMS), the Agreement on Technical Barriers to Trade (TBT), Agreement on Textile and Clothing, Agreement on Anti-Dumping, Agreement on Subsidies and Countervailing Measures, and Pluri-lateral Trade Agreements (PTA).

Let us discuss these agreements in detail below:

- The General Agreement on Trade in Services (GATS) is a WTO agreement that came into effect in 1995 as a result of negotiations during the Uruguay Round. It was designed with the aim to extend multilateral trade system to services, similar to the system for merchandise trade provided by the General Agreement on Tariffs and Trade. All WTO members are signatories to the GATS.
- Negotiated during the Uruguay Round of the GATT was also the Agreement on Agriculture which went into effect with the establishment of WTO in January 1995. This WTO agreement has three central concepts, namely export subsidies, market access and domestic support. However, it is criticized for reducing tariff protections for farmers, recognized as a vital source of income in developing countries.
- The Agreement on Trade-Related aspects of Intellectual Property Rights (TRIPS) covers seven categories of intellectual property. These are: a) copyright and related rights, b) trademarks, c) geographical indications, d) industrial designs, e) patents including micro organism and plant varieties, f) integrated circuits, and g) trade secrets. For the implementation of this agreement different transition period has been

agreed upon for different group of countries to bring their respective legislation and practices into conformity.

- The Agreement on Trade-Related Investment Measures (TRIMS) addresses the problem of certain investment measures that restrict and distort trade. It seeks to remove all trade related investment measures within a period of five years. Equal treatment of foreign investment companies vis-à-vis domestic investment companies, prevention of restrictions on areas of investment, free imports of raw materials, components and intermediate products are some of the requirements under the agreement. The agreement also requires the removal of all trade related investment measures within two years for the developed countries, within five years for developing countries, and within seven years for the least developed countries.
- The Agreement on Technical Barriers to Trade, also known as the TBT Agreement, was negotiated during the Uruguay Round of the GATT and entered into force in January 1995. The task of the TBT Agreement is to ensure that standards and negotiations create no obstacles to trade.
- The Agreement on Textile and Clothing is to secure the integration of textile and clothing sector into the GATT 1994. This is to occur in four phases. To facilitate the transition process all member countries are to take specific actions in the area of textile and clothing in conformity with GATT Rules. The agreement envisages improved market access, fair and equitable trading conditions, and elimination of discrimination against imports.
- The Agreement on Anti-Dumping provides the right of contracting parties to apply anti-dumping measures if dumped imports cause injury to domestic industry in the importing WTO member country. It details the rules, criteria, procedure, implementation and settlement of disputes relating to anti-dumping measures.
- The Agreement on Subsidies and Countervailing Measures applies to non agricultural products. It classifies subsidies into prohibitive, non-actionable and actionable categories. Prohibitive subsidies are export subsidies and those that favour the use of domestic goods over imported

ones. Developing countries with per capita income of less than US$1000 have been exempted from prohibition of export subsidies. Non actionable subsidies are those that are not given to any specific enterprise, industry, or group of enterprises or industries. In case of actionable subsidies, actions can be taken by a trading partner if its interests are adversely affected. It can either impose countervailing duties or opt for dispute settlement procedure.

- A pluri-lateral agreement implies that WTO member countries would be given the choice to agree to new rules on a voluntary basis. This contrasts with the multilateral WTO agreement, where all WTO members are party to the agreement.The Plurilateral Trade Agreement has four components. These are : Agreement on Trade in Civil Aircraft which was done at Geneva in 1979 as subsequently modified, rectified or amended; Agreement on Government Procurement was done at Marrakesh on 15 April 1994; International Dairy Agreement done at Marrakesh on 15 April 1994; and International Bovine Meat Agreement done at Marrakesh on 15 April 1994.



CHECK YOUR PROGRESS

Q 4: How many agreements does the WTO oversee in total?

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Q 5: Name three important WTO Agreements. (Answer in about 30 words)

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Q 6: What are the three individual Agreements under the Pluri-lateral Trade Agreement?

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15.5 IMPLICATIONS FOR INDIA

India is one of the founding members of WTO along with 134 other countries. By participating in an increasingly rule-based system of International trade, India stands to gain. Various trade disputes of India with other nations have been settled through WTO. India has also played an important part in the effective formulation of major trade policies. Several WTO member countries are now trading with India which is giving a boost to production, employment, standard of living and an opportunity to maximize the use of the world resources.

Benefits for India : We may point out the following benefits that India can reap by being an active member of the WTO:

- Membership of WTO will take India towards globalization in an effective manner. This brings the potential of accelerated economic growth, gains from trade and increased capital inflows.
- Membership of WTO is likely not only to strengthen the traditional export markets, but also to bring in new destinations of Indian exports and sources of required imports.
- A well established organisation ratified by the world community is sure to be able to establish a rule based mechanism in international transactions. With an integral component of dispute settlement system , the WTO is bound to benefit economically all its members, including India, and contribute positively towards world economic welfare.

Hurdles at WTO : But there are several hurdles facing the Multilateral Trade Agreements under WTO. These are briefly delineated below:

- Predominance of developed nations in negotiations and their tendency to extract more benefits from developing and least developed countries.
- Resource and skill limitations of smaller countries to understand and negotiate under rules of various agreements under WTO.
- Incompatibility of developed and developing countries resource sizes that is hampering implementation of various decisions.

- Questionable sincerity and effectiveness in the implementation of agreements reached in past.
- Non-tariff barriers being created by developed nations.
- Regional cooperation groups posing threat to utility of WTO agreement itself, which is multilateral and encompassing all member countries.
- Poor implementation of Doha Development Agenda.
- Agriculture seems to be the bone of contention for all types of countries where France, Japan and some countries are just not willing to budge downwards in matter of domestic support and export assistance to farmers and exporters of agriculture produce.
- Dismantling of MFA (Multi Fiber Agreement) and its likely impact on countries like India.
- Under TRIPS question of high cost of Technology transfer, Bio Diversity protection, protection of Traditional Knowledge and Folk arts, protection of Bio Diversities and geographical Indications of origin, for example Basmati, Mysore Dosa or Champagne. The protection has been given so far in wines and spirits that suit US and European countries.

Strategies to Overcome the Problems: In view of the above problems, it seems prudent that India puts in place certain essential safeguards against adverse impacts of WTO so that it can work towards attaining the most desirable results. Such a strategy may include the following features:

- Indian economic reforms must be in accordance with the resilience of the economy. This will best exploit the potential strength of our economy.
- Social sector reforms should be given due priority. This will save millions from uncertainties and fluctuations of fortune in a market economy.
- India must continue to be the voice of the developing countries of the world safeguarding their interest and must continue to work towards creating a level playing field.
- India must get on to a higher growth trajectory of 10% and emerge as an influential player in the international market. It must increase the competitiveness of its exports, be a favoured destination of international capital and increase its overall productive efficiency.

- India must build up world-class infrastructure like roads, ports and electricity supply. It should also focus on original knowledge generation in important fields like Pharmaceutical molecules, textiles, information technology high end products, processed food, installation of cold chain and agricultural logistics to tap the opportunities of globalization under WTO regime.



CHECK YOUR PROGRESS

Q 7: State whether the statement is true or false: India is not a founding member of the WTO. (T/F)

Q 8: State two advantages of being a member of the WTO. (Answer in about 50 words)

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Q 9: Mention three important hurdles in implementing the WTO agreements. (Answer in about 50 words)

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15.6 LET US SUM UP

- WTO came into being after the conclusion of Uruguay round of talks under General Agreement on Tariff and Trade (GATT) on 1st January, 1995. At present it has 153 member countries.
- It is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated

and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

- The establishment of WTO is the latest attempt of the international community to establish a rule based mechanism of international transaction of goods and services with a view to enhancing the world economic welfare.
- The main functions of the WTO are: negotiating the reduction or elimination of obstacles to trade, administering and monitoring the application of the WTO's agreed rules, monitoring and reviewing the trade policies of the members, settling disputes among the members, building capacity of developing country government officials, assisting the process of accession of non-member countries, conducting economic research and collecting and disseminating trade data in support of the WTO's other main activities, and explaining to and educating the public about the WTO.
- The World Trade Organisation oversees some 30 diverse agreements that have the status of international legal texts. All these agreements must be signed and ratified by WTO member states on accession.
- Some of the most important WTO agreements include the General Agreement on Trade in Services (GATS), the Agreement on Agriculture, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Agreement on Trade Related Aspects of Investment Measures (TRIMS), the Agreement on Technical Barriers to Trade (TBT), Agreement on Textile and Clothing, Agreement on Anti-Dumping, Agreement on Subsidies and Countervailing Measures, and Pluri-lateral Trade Agreements (PTA).
- By participating in an increasingly rule based system of International trade, India stands to gain. Various trade disputes of India with other nations have been settled through WTO. Several WTO member countries are now trading with India which is giving a boost to production, employment, standard of living and an opportunity to maximize the use of the world resources.

- There are several problems in the implementation of various agreements as they are to the disadvantage of developing countries like India. These include a conflict of interest between the rich and poor nations, resource and skill limitations of the poor nations, non-tariff barriers created by developed nations, formation of several regional groupings, poor implementation of Doha Development Agenda, and contentious issue of agriculture subsidies.
- It seems prudent that India puts in place certain essential safeguards against adverse impact of the WTO so that it can work towards attaining the most desirable results. India should follow its own reform agenda in accordance with the resilience of the economy, must emphasize on social sector reforms, put up a strong economic infrastructure and continue to enhance efficiency of the economy, including the competitiveness of its exports.



15.7 FURTHER READING

1) Dhar, P.K. (2018). Indian Economy: Its Growing Dimension. New Delhi: Kalyani Publishers.
2) Datt, G and Mahajan, A. (2016). Datt & Sundharam's Indian Economy. New Delhi: S. Chand & Co.
3) Misra, S.K. & Puri, V.K. (2018). Indian Economy. New Delhi: Himalya Publishing House.



15.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 1st January,1995

Ans to Q No 2: 153.

Ans to Q No 3: Two important functions of the WTO are :

a) negotiating the reduction or elimination of obstacles to trade (import tariffs, other barriers to trade) and agreeing on rules governing the conduct of international trade (e.g. antidumping, subsidies, product standards, etc.).
b) administering and monitoring the application of the WTO's agreed

rules for trade in goods, trade in services, and trade-related intellectual property rights.

Ans to Q No 4 : 30.

Ans to Q No 5 : Three important agreements of the WTO include:

a) General Agreement on Trade in Services (GATS),
b) the Agreement on Agriculture, and
c) the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Ans to Q No 6 : The three individual agreements under the Pluri-lateral Trade Agreement are:

a) Agreement on Trade in Civil Aircraft,
b) Agreement on Government Procurement, and
c) International Dairy Agreement and International Bovine Meat Agreement.

Ans to Q No 7 : False

Ans to Q No 8 : Two important advantages of WTO for India are :

a) Membership of WTO will take India towards globalization in an effective manner. This brings the potential of accelerated economic growth, gains from trade and increased capital inflows.
b) Membership of WTO is likely not only to strengthen the traditional export markets, but also to bring in new destinations of Indian exports and sources of required imports.

Ans to Q No 9 : Three important hurdles in implementing the WTO agreements are :

a) Predominance of developed nations in negotiations and their tendency to extract more benefits from developing and least developed countries.
b) Resource and skill limitations of smaller countries to understand and negotiate under rules of various agreements under WTO.
c) Incompatibility of developed and developing countries' resource sizes that is hampering implementation of various decisions.

15.9 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1 : Discuss the activities of the WTO.

Q 2 : Write a short note on the TRIPS and TRIMS measures implemented under the WTO.

Q 3 : Briefly discuss the agreements on anti-dumping activities and subsidies and countervailing measures implemented under the WTO.

Essay type Questions (Answer each question in about 300-500 words)

Q 1 : Give an overall account of the different agreements implemented under the WTO.

Q 2 : As member of the WTO, what should be India's approach to reap the maximum advantage from it?



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4) Pieters, H, A Guariso and A Vandeplas(2013): " Conceptual Framework for the Analysis of Determinants of Food and Nutrition Security", FOODSECURE working paper no.13
5) Puri, V.K & Misra, S.K(2017). 'Indian Economy'. Mumbai. Himalaya Publishing House Pvt.Ltd.
6) Sen, A. K(1983). 'Poverty and Famines: An Essay on Entitlement and Deprivation.' Oxford University Press.
7) Webb, P & R Bhatia(2005): " Measuring and Interpreting Malnutrition and Mortality",Nutrition Service, WFP, Rome.

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Learner's Feedback on Course

Dear Learner,

Regarding the course as mentioned above, we would like to know your opinions and comments so as to improve the quality of self learning materials in future. Please respond to the following statements by ticking the number you feel most reflect your opinion. After completion of the additional comments, please detach the page and send/mail the same to us at the address given below.

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1. Approximately how many hours did you spend for studying the units in the course? | | | |
2. Please give your opinions (by √ mark) to the following items based on your reading of the block:

Sl. No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I.	The SLMs of the course fulfil the learning objectives set out in the beginning of each unit					
II.	The units of the SLM could satisfy my academic needs and expectations					
III.	The Unit writers have excellent knowledge about the course contents					
IV.	Language and contents of the units were presented at a level which I could readily understand					
V.	Ample opportunity for participation in the activities provided in the units					
VI.	Used enough Illustrations (Diagrams, tables etc.) for conceptual clarity					
VII.	Quality of content is engaging, relevant, and up-to-date					
VIII.	The self check questions are very helpful					
IX.	The Possible/model questions and the answers to check my progress have benefited me a lot					

Additional Comments: *(Please feel free to provide your open comments)*

1. Which aspects of the SLM, according to you, worked well?

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2. What sort of changes/improvements do you feel KKHSOU could implement to improve the overall quality of the SLM?

Thank you for taking the time to complete this form.

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