1. Nature Of Economics

Economic Growth and Development

In the words of **Prof. Bell**, "economic thought is a study of heritage left by writers on economic subjects over a period of about 2500 years, and it freely draws upon all phases of human knowledge".

The Hebrew Economic Thought

- The Hebrews had one of old the ancient civilizations of the world.
- They gave top priority for religion and ethics, and they gave importance to agriculture.
- The Hebrews had definite ideas on subjects such as usury (interest), just price, property rights and monopoly.
- The Hebrew civilization was a rural and agrarian civilization.
- One of their proverbs is: "***He that tilleth the soil shall have plenty of bread"***.
- The **jubilee year** was the 50th year. According to Jubilee year, the land sold to someone was to revert to its owner in the 50th year.
- ***The Sabbath*****:** was the weekly day of rest, relaxation and good living.

Mercantilism

- The economic ideas and policies which were followed by European governments from the 15th century until the second half of the 18th century may be described as ***mercantilism*****.**
- The mercantilists thought that the wealth of a nation could be increased by **trade**.
- **Alexander Gray** put it, *"**it was thus a primary principle of the typical mercantilist to maximize exports while minimizing imports**"*.
- According to mercantilists, trade was the most important occupation. Industry and manufacture were ranked second in importance. And agriculture was considered the least important occupation.

The Physiocrats

- The term *'**physiocracy**'* means ***'Rule of Nature'***.
- Physiocracy was essentially a revolt by the French against mercantilism.
- The physiocrats developed the concept of natural order. According to them, the natural order is an ideal order given by God.
- They advocated ***laissez–faire***. It means ***"let things alone, let them take their own course"***.

The Leading Economists Of The classical school

1.) **Adam Smith** - who is regarded as the Father of Economics was interested in the nature and causes of the wealth of nations. We can call him the first development economist.
2.) **David Ricardo** - was interested in the problems of distribution.
3.) **J.S. Mill** - believed in individualism as well as socialism. He advocated socialist reforms in distribution as the laws of distribution were different from the laws of production.
4.) **Karl Marx (1818-1883)** - was the founder of scientific socialism. He was a great critic of the capitalist system which was exploitative in nature and predicted that capitalism would give way to socialism. According to him, ***"all history is a history of class struggle"*****.**
5.) **Alfred Marshall** - who pointed out that economics, was on one side a study of wealth and on the other and more important side a part of the study of man.
6.) **J.M. Keynes** - is considered the Father of New Economics. During the 1920s and 1930s, when the capitalist countries were affected by the Great Depression marked by bad trade and mass unemployment, Keynes suggested a greater role for government and a bold fiscal policy to tide over the crisis. The New Deal policy of America was greatly influenced by Keynesian policy.

Economic Growth and Development

- **Economic growth** has been defined by **Arthur Lewis** as ***"the growth of output per head of population".***
- In other words, economic growth refers to an increase in per capita national income.
- According to Arthur Lewis, economic growth is conditioned by (1) economic activity, (2) increasing knowledge and (3) increasing capital.
- In general terms, we may say if there is decline in poverty, unemployment, and inequality, there is ***Economic Development*** in the country. Otherwise, even if per capita income doubled, we cannot say there is economic development.

So when we say there is development, there must be improvement in the quality of life. That means;

- ➢ People must have higher incomes,
- ➢ Better education,
- ➢ Better health care and nutrition,
- ➢ Less poverty and
- ➢ More equality of opportunity.

So according to ***Michael P. Todaro*** and ***Stephen C. Smith***, "development must be conceived of as a multidimensional process involving major changes in social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty".

Rostow's Stages of Economic Growth

W.W. Rostow, American economic historian described the transformation of countries from underdevelopment to development in terms of stages of growth. The following stages are:-

1) ***The Traditional Society*** – It is custom-bound and tradition-oriented, the poor countries are good example.

2) ***The Transitional Society*** - In the transitional society, the force of customs and traditions will become less, there will be economic motivation, and there will be improvements in physical and social infrastructure.

3) ***The take- off stage*** – It refers to a situation where an economy transforms itself from a predominantly agricultural to a predominantly industrial society.

4) ***The mature stage*** - In this stage, the government has to make some basic decisions. As there will be abundant resources and goods, whether it has to use them for strengthening the nation into a strong and powerful state militarily or to use the resources for improving the welfare of the people.

5***) The age of high mass consumption*** - The final stage is the age of high mass consumption. During this period, people will consume all kinds of goods especially durable goods like cars on a mass scale.

2. Population

Meaning of Population

The term population refers to the whole number of people or inhabitants in a country or region.

Factors Determining Population Growth

The basic factors determining population growth are:-

1. Birth Rate

Birth rate has a positive influence on growth of population. Higher the birth rate, higher will be the growth of population.

The birth rate depends on the following factors:

- the age of marriage
- the rapidity of child birth
- social customs and beliefs and
- Illiteracy and ignorance of controlling births.

Early marriage, higher child birth, higher the spread of social customs and beliefs (like son preference to do the religious functions) and higher the rate of illiteracy and ignorance of birth controlling measures, higher will be the birth rate and population growth.

Social awareness and spread of education among the people can help to increase the mean age of marriage, increase the knowledge about family planning methods and family welfare measures to control births, reduce the rapidity of child birth and thereby reduce the birth rate.

2. Death Rate

Lower the death rate, higher will be the population growth and vice versa. High death rates may be due to hunger, starvation, malnutrition, epidemics, lack of proper medical and sanitary facilities.

On the other hand, low death rates may be the result of better diet, pure drinking water, improved hospital facilities, control of epidemics and contagious diseases and better sanitation.

3. Migration

Out-migration will reduce population growth while in-migration will increase the population growth.

Migration is not an important factor contributing to the population growth due to the restrictions imposed by different countries. Thus, the two major causes for the variations in population are birth rate and death rate.

Population as a stimulant to economic development

- ❖ In a backward economy, population growth results in increase in supply of labour. This in turn results in the availability of cheap labour in the economy. Therefore, under a given technology with the availability of capital, production can be increased by increasing the labour use.
- ❖ Population growth results in increased demand for products. Increased demand results in increased production, employment and income in the economy. As a result, the economy will develop.
- ❖ Due to population growth, the supply of goods and services increases. Increased supply results in increased production, which in turn results in specialisation. Specialisation will induce technological improvements.
- ❖ Increased demand and increased supply of products result in scarcity of resources, which induce technological improvements.

Population Explosion

Population explosion means the alarming and rapid rate of increase in population.

Causes Of Population Explosion

1. High Birth Rate

High Birth rate is a major cause responsible for the rapid growth of population. In India, although the birth rate has declined from 45.8 per thousand during the period 1891-1900 to about 25.8 per thousand in 2001, it is still considered to be substantially high. The birth rate has not come down considerably in spite of the increase in the widespread propaganda of family planning, family welfare programmes and population education campaigns.

2. Low Death Rate

The phenomenal fall in the death rate in recent years is another important factor that has contributed to the rapid increase in population. The death rate in India is about 8.5 per thousand in 2001. Due to advancement in medical science, dreadful and chronic diseases such a small pox, cholera, plague, typhoid are no longer dreaded. Better facilities for sanitation and cleanliness, provision of pre-natal and post-natal care has reduced infant mortality rate.

3. Early Marriage

The practice of early marriage is another important reason for the rapid increase in population in India. The mean age of marriage for girls is about 18 years, which is low, compared to the world countries, which is about 23 to 25 years. This results in a longer span for reproductive activity and the increase in the number of children.

4. Social and Religious reasons

In India, every person has to marry because marriage is a compulsory institution as per social norms. In joint family system, nobody feels individual responsibility and everybody has access to equal level of consumption. Therefore, people do not hesitate to increase the size of the family. Most of the people think that at least one male child should be born in the family. In the expectation of getting a male child, they go on increasing the family size.

5. Poverty

Poverty is another cause which contributes to the increase in population. Children are source for income of the family. The children at a very young age help their parents in work, instead of going to school and thus prove to be an asset for the family. Every additional child will become an earning member and thus supplement the family income.

6. Standard of living

People whose standard of living is low. Since a majority of the population is uneducated, they are unable to understand the need for family planning. They are unaware that a smaller size of family will help them enjoy a better standard of living.

7. Illiteracy

A major part of the population (about 60%) in India is either illiterate or has the minimum education. This leads them to accept minimal work in which they cannot even support themselves.

Unemployment and under-employment further lead to poverty.

Population Explosion as an obstacle to Economic Development

The rising population in India affects economic development in the following ways:

(1) Food Shortage

If the population of India goes on rising and there is no proportionate increase in agricultural production, the

country will face a serious food problem.

(2) Burden of unproductive Consumers

The greater the increase in population, the greater is the number of children and old persons. Children and old persons consume without their making any contribution to output. The increasing number of children and old people increase the burden in terms of more requirements of nutrition, medical care, public health and education that go unattended to a large extent.

(3) Reduction in National and Per Capita Income

The fast growing population reduce the average growth rate of national income and per capita income. This is because whatever is added to the national income is consumed by ever-increasing population.

(4) Low savings and investment

The national income and per capita income in India is very low to leave any margin for the people to save. Further, there will be a fall in effective demand as the people's purchasing power is low. Rapid population growth thus makes it difficult to increase the rate of savings which determines the possibility of achieving higher productivity and incomes in a country.

(5) Reduction in Capital Formation

Capital formation is very essential for the economic development of a country, particularly for a developing country like India. Capital formation depends upon saving and investment. This is not possible when there is a rapid growth of population, which results in more unemployment and underemployment. Thus, the fast-growing population affects the capital formation in the country adversely.

(6). Unemployment and Underemployment

Rising population aggravates the problem of unemployment. The labour force also increases with the increase in population; and this increased labour force is not fully absorbed due to lack of employment opportunities. Therefore, there are more unemployed and underemployed people.

(7) Loss of Women's Labour

Rapid and frequent childbirths make a large number of women unable to take part in productive activity for longer periods. This is a waste of human resource, and it retards economic development.

(8) Low Labour efficiency

The increasing population adversely affects the national income and the per capita income. Due to this, the people have a low standard of living, which makes them less efficient. This hinders the rapid development of the country.

(9) More Expenditure on Social Welfare Programmes

A rise in population increases the number of children. This would demand more social expenditure on medical care, public health, family welfare, education and housing, etc.

(10) Agricultural Backwardness

The increase in population has led to uneconomic holdings through subdivision and fragmentation of land holdings in India. The size of holding is so small that mechanised farming is not possible. Although some successful efforts towards development of agriculture have been made under the Five Year Plans.

(11) Underdeveloped Industries

The rapid growth of population adversely affects industrial development. This is the reason why neither the cottage and small-scale industries nor large-scale industries could develop adequately in the country. Both big and small industries require adequate capital, whereas the rate of capital formation is low in India. Public investment in India is insufficient for the industrial development of the country.

(12) Financial Burden on Government

Rapid increase in population is a financial strain to the government. The resources have to be spent on launching poverty alleviation programmes and social welfare schemes, includes drinking water, housing, sanitary, health and medical facilities in order to increase the standard of living of the people. If the population is controlled, then the government can spend on more productive purposes which would increase the national and per capita income and thereby raise the standard of living of the people.

Steps to check rapid growth of population

(1) Couple Protection Rate (CPR)

CPR should be increased, which means the percentage of couples using birth control or family planning methods should go up.

(2) Infant Mortality rate (IMR)

IMR must be reduced further because when infants die in lesser numbers, there is an incentive to adopt small family norm by the people.

(3) Industrialisation of the country

The burden of population on land must be reduced. Cottage and small scale industries must be developed in villages to provide employment to the maximum number of people. This leads to increase in standard of living which acts as a check on population growth.

(4) Increase in Female Literacy Rate and Education

The educated people have a better and more responsible outlook towards the size of their families. They can understand the advantages of a small family and adopt family planning methods to reduce the family size. This will help in reducing the birth rate.

(5) Late Marriages

Late marriages must be encouraged. At the same time, early marriages must be strictly checked. The minimum age of marriage for boys at 21 years and for girls at 18 years should be strictly followed in real life.

(6) Legal Steps

Strict laws must be made and enforced to check early marriages and polygamy.

(7) Family Planning

Family Planning means limiting the size of the family. The Family Planning Campaign should be a national movement. Education about family planning must be made common. People must be made aware of the different methods of birth control.

<u>Theories of Population</u>

1.) Malthusian Theory of Population

The Malthusian theory of population is the most well-known theory on population in economics. Malthus pointed out that an accelerated increase in population would outweigh the increase in food production. This would have an adverse impact on the development of an economy. This theory is explained in the following propositions:

- First, the rate of growth of population is limited by the availability of the subsistence **i.e. food.** If the subsistence increases, population also increases.
- Second, population increases at a faster rate than food production. In other words, while population increases in a geometric progression, food production increases in an arithmetic progression.
- Third, the preventive and positive checks are the two measures to keep the population on the level with the available means of subsistence.

The first proposition, states that the size of population is determined by the availability of food production. If food production does not increase to match the rate of growth of population, it will lead to poverty. If the food production increases, the people will tend to increase their family size. This will lead to more demand for food, so the availability of food per person will diminish. This will lead to a lower standard of living.

The second Proposition, states that population would increase at a geometrical progression i.e. in the ratio of 2, 4, 8, 16, 32, etc., but food production would increase at an arithmetical progression i.e. in the order of 2, 4, 6, 8, 10, etc. The imbalance between the population growth and food supply would lead to a bare subsistence of living, misery and poverty.

The third proposition, imbalance is corrected by two checks namely ***preventive checks and positive checks.***

1. ***Preventive checks*** are applied by man to reduce the population. It include late marriage, self-restraint and other similar measures applied by people to limit the family.

2. ***Positive checks*** affect population growth by increasing death rate. It includes Common diseases, plagues, wars, famines unwholesome occupations, excess labour, exposure to the seasons, extreme poverty, bad nursing of children are a few examples for positive checks.

2.) The Theory of Optimum Population

The modern theory of optimum population brings out the relationship between changes in population and the consequent changes in per capita income. Modern economists such as **Sidgwick**, **Cannon**, **Dalton** and **Robbins** have propagated this theory.

Optimum population means the ideal population relative to the natural resources, stock of capital equipment and state of technology.

In other words, *optimum population is that level of population at which per capita output is the highest.*

A country is said to be under populated if the population is less than the optimum and overpopulated if the population is more than the optimum.

The following formula measures whether population at a point of time is optimum or not

$$\mathbf{M = \frac{A-O}{O}}$$

Where,
M = Maladjustment in level of output
A = Actual population
O = Optimum population
If 'M' is zero, then the total population is equal to optimum population
If 'M' is positive, the total population is more than the optimum population.
If 'M' is negative, the total population is less than the optimum population

3. The Theory of Demographic Transition

The demographic transition brings out the relationship between fertility and motility, i.e. between the birth rate and the death rate.

Birth rate refers to the number of births occurring per 1000 in a year.

Death rate refers to the number of deaths occurring per 1000 in a year.

This theory explains the changes in these rates as a consequence of economic development. This theory points out that there are three distinct stages of population growth.

Stage I: High Birth Rate and Death Rate

In the first stage, the country is backward and less developed.

Agriculture will be the main occupation of the people. The standard of living of the people will be low.

The high death rate is due to poor diets, improper sanitation and lack of proper medical facilities.

Birth rate is high on account of widespread illiteracy, ignorance of family planning techniques, early marriages, social beliefs, customs and attitudes of the people.

In this stage, the rate of growth of population is not high since high birth rate is offset by the high death rate and the population growth stagnates.

Stage II: High Birth Rate and Low Death Rate

As a country advances, it might result in increase in industrial activity, creating more employment opportunities.

This will raise the national and per capita income of the people, thereby increasing their standard of living.

The advancement in science and technology will result in the availability of better medical facilities.

The eradication of many epidemics and dangerous diseases and better sanitary conditions reduce the disease and death.

The birth rate still remains high due to the resistance to change, and the long established customs and beliefs.

Stage III: Low Birth Rate and Death Rate

Economic development leads to change in the structure of the economy from an agrarian to a partially industrialised.

With the increase in industrialisation, people migrate from rural to urban areas, and there is a change in the attitude of the people.

With the spread of education, people prefer small families in order to increase the standard of living. Thus the birth rate is reduced.

Implementation of better medical facilities, control of disease and public sanitation result in low death rate.

Census

The term 'Census' can be defined as the process of collecting, compiling, evaluating, analysing and publishing the demographic economic and social data relating to all persons in a country at a specified time.

The first population census in India was taken in 1872 and in 1881. From then, the census is taken once in 10 years. The latest census was taken in 2011. Census is very important to know (1) the rate of growth of population (2) the changes in the distribution of the population.

Census is useful for economic planning, and for implementing welfare schemes and measures.

The Use of Population Census

The details recorded in the population census are as follows:

- Total Population
- Sex Composition
- Rural versus Urban population
- Age Composition
- Density of Population
- Literacy Rate
- Urbanisation
- Occupational Pattern

Characteristics of Indian Population

India accounts for about 2.4 % of the total world area but has to support about 16.84 % of the world population.

Thus during one century i.e. 100 years, the population of India has increased by nearly 788.5 million people.

This order of increase is really alarming and threatening to the whole development process in India.

Population growth in India

Rate of growth of population is a function of birth rate and death rate. The increase in population in India can be explained by the variations in birth and death rates. The birth rate in India declined from 49.2 per thousand in 1901 to 17.64 in 2001. In the same period, the death rate has fallen from 42.6 per thousand to 8.5 per thousand.

The National Population Policy (NPP)-2000 recently adopted by the Government of India states that "the long term objective is to achieve a stable population by 2045, at a level consistent with the requirements of sustainable development, and environment protection."

Population Policy

India was the first developing country to adopt a population policy and to launch a nationwide family planning programme in 1952.

The main objective of the population policy is to ensure that there is reasonable gap between the fall of death and birth rates.

Population policy refers to the efforts made by any Government to control and change the population structure.

National Population Policy 2000

The National Population Policy (NPP) 2000 has the immediate objective of addressing the unmet needs of contraception, health infrastructure, health personnel and integrating service delivery for basic reproductive and child health care.

The policy's long term objective is to stabilise population by 2045.

A National Commission on population presided over by the Prime Minister, Chief Ministers of all States and other dignitaries as the members has been constituted to oversee and review the policy (NPP-2000) implementation.

Similar to the National Commission, State Level Commissions presided over by the respective State Chief Ministers have also been set up with the same objective of ensuring implementation of the policies.

Measures to achieve a stable population

The National Population Policy has listed the following measures to achieve a stable population by 2045.

1. Reduction of infant mortality rate (IMR) below 30 per 1,00,000 live births.
2. Reduction of maternal mortality rate (MMR) to below 100 per 1, 00,000 live births.
3. Universal immunization.
4. To achieve 80 % deliveries in regular dispensaries, hospitals and medical institutions with trained staff.
5. Access to information, containing AIDS, prevention and control of communicable diseases.
6. Incentive to adopt two-child small family norm.
7. Strict enforcement of Child Marriage Restraint Act and Pre-Natal Diagnostic Techniques Act.
8. Rising the age of marriage of girls from 18 to 20.
9. A special reward for women who marry after 21.

The Action Plan of the programme includes the following:

- Self-help groups at village Panchayat levels comprising mostly of housewives will interact with health care workers and gram panchayats.
- Elementary education to be made free and compulsory.
- Registration of marriage, pregnancy to be made compulsory along with births and deaths

The Government hopes to achieve the objective of population stabilisation by 2045

Poverty and Unemployment

Definitions of Poverty

The World Bank (1990) has defined poverty as **"*the inability to attain a minimal standard of living*".**

In the words of Dandekar (1981) **"*want of adequate income, howsoever defined is poverty*"** Thus, lack of adequate income to buy the basic goods for subsistence living is an important element in the definitions of poverty.

Types of poverty

1. Absolute poverty

When people do not have adequate food, clothing and shelter, we say they are in absolute poverty.

2. Relative poverty

Relative poverty refers to differences in income among different classes of people or people within the same group or among people of different countries.

3. Temporary or chronic poverty

In countries like India, when there is poor rainfall, the crops fail and the farmers temporarily enter into a poverty sample. But when they are poor for long, then we call it chronic or structural poverty.

4. Primary Poverty and Secondary Poverty

Rowntree (1901) made a distinction between primary poverty and secondary poverty.

Primary poverty refers to "families whose total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency".

Secondary poverty refers to "a condition in which earnings would be sufficient for the maintenance for merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful such as drink, gambling and inefficient housekeeping."

Rowntree said that secondary poverty prevented many more people from meeting what he called "human needs standard" than did primary poverty (that is, inadequate incomes).

5. Rural Poverty

A majority of the people in rural areas are poor because they do not own assets like land and they work as agricultural labourers; their wages are low and they get work only for a few months in a year.

6. Urban Poverty

The urban poor, on the other hand, work for long hours but they get low incomes. They are employed mostly in the unorganized or informal sector. They are "sub-employed".

Sub-employed are those 1) who work part- time but want full - time work; 2) family heads working full time who do not earn enough to bring their families over the poverty line and 3) discouraged workers who no longer seek work.

Poverty Line

Poverty Line refers to the minimum income, consumption, or, more generally *access* to goods and services below which individuals are considered to be poor. The poverty line is the expenditure level at which a minimum calorie intake and indispensable non-food purchases are assured.

It may be noted that even among the poor, there are differences in the degrees of poverty. So the focus of the government policies should be on the poorest of the poor.
Nutrition based poverty lines are used in many countries.

Poverty in India

1. *Dandekar and Rath* estimated the value of the diet with 2,250 calories as the desired minimum level of consumption.

While the Planning Commission accepted Rs.20/- per capita per month (i.e. Rs.240/- p.a.),

Dandekar and Rath suggested a lower minimum for rural population (Rs.180/- per capita p.a.) and a higher minimum (Rs.270/- per capita p.a.) for urban population at 1960-61 prices.

On this basis, they estimated that 40 % of the rural population and about 50 % of the urban population were below the poverty line.

2. According to ***P.D.Ojha,*** the percentage of those below the poverty line in rural sector increased from 52 percent in 1960-61 to 70 percent in 1967-68.

3. *B.S.Minhas* by taking per capita annual consumption expenditure of Rs.240/- as the barest minimum concluded that nearly half of the rural population (50.6 percent) was living below the poverty line in 1968.

4. *P.K.Bardhan's* study concluded that the percentage of rural population below the poverty line increased from 38 percent in 1960-61 to 54 percent in 1968-69.

5. *Montek Singh Ahluwalia's* study of rural poverty (1977) arrived at the conclusion that the rural poverty declined initially from 50% in mid – 1950s to around 40% in 1960-61, but increased to 56.5% in 1967-68.

Whenever agricultural performance was good, rural poverty declined and whenever it was poor, it rose. It may be noted that Ahluwalia used an expenditure level of Rs.15/- in 1960-61 prices for rural areas and Rs.20/- per person per month for urban areas.

Ahluwalia accepted that this level of expenditure represents an extremely low level of living.

6. *The Seventh Finance Commission* used a concept called "the augmented poverty line".

In it, along with private consumer expenditure per capita, public expenditure on (1) health and family planning; (2) water supply and sanitation; (3) education; (4) administration of police, jails and courts;

(5) roads; and (6) social welfare were taken into account.

According to the estimate of Seventh Finance Commission, 52% of the population was below the poverty line. It also said that this percentage (52%) was applicable to urban as well as rural areas.

7. ***The Planning Commission*** estimated the poverty line by taking Rs.49.1 and Rs.56.6 per capita monthly expenditure for rural and urban areas respectively.

The World Bank estimated for India that in 1988, 39.6% of the population was below poverty line. The percentage for rural areas was 41.7% and urban areas 39.6%.

Causes of Poverty in India

The main causes of rural poverty in India are as follows:

1. *Unemployment and underemployment*: Even there are good rains in the year, agricultural labourers do not get work throughout the year.

2. *Population pressures:* there are many dependents per every earning member. And there is the problem of disguised unemployment. On a farm, there may be work for only four persons. But six or seven persons may be there on the farm. The marginal productivity of the extra persons is almost zero.

3. Indian agriculture is marked by low productivity. So majority of those engaged in agriculture are poor.

4. A majority of people in rural areas do not have enough assets, especially land. The main reason for this is the concentration of land in the hands of a few families.

Poverty alleviation programmes

The problem of poverty eradication is one of providing employment and raising the productivity of low level of employment. The following measures have been taken by the government to remove poverty from the country.

1. Land Reforms

Land reforms legislation has been passed by the state governments, which aim at improving the economic conditions of agricultural landless labourers.

Every state has passed the necessary legislation fixing ceiling on agricultural holdings by which the maximum amount of land which a person can hold has been fixed by law.

The surplus lands thus acquired were to be distributed to the landless labourers and small peasants.

2. Jawahar Gram Samridhi Yojana (JGSY)

It was introduced in April 1999 as a successor to Jawahar Rozgar Yojana on a cost sharing basis of 75 **:** 25 between the Union and States.

3. National Social Assistance Programme (NSAP)

It was launched on August 15, 1995 to provide social assistance benefits to poor households affected by old age, death of primary bread winner or need for maternity care.

4. Employment Assurance Scheme (EAS)

It was started on October 2, 1993 in 1778 backward blocks in drought prone, desert, tribal and hill areas. It was expanded to cover all the 5,488 rural blocks of the country. It gave wage employment to the rural poor.

In September 2001, it was merged into new Sampoorna Gramin Rozgar Yojana along with Jawahar Gram Samridhi Yojana.

5. Pradhan Mantri Gramodaya Yojana (PMGY)

It was introduced in the Budget for 2000-2001 with an allocation of Rs. 5,000 crore. Its focus is on health, primary education, drinking water, housing and rural roads.

Common Property Rights in grazing lands, wastelands, forests and water resources were made available to the rural people in the past.

6. Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

Urban self-employment and urban wage-employment are the two special schemes under it.

It substituted in December 1997 various programmes operated earlier for urban poverty alleviation.

It is funded on 75: 25 basis between the Union and the States.

7. Integrated Rural Development Programme (IRDP)

The concept of an Integrated Rural Development Programme was first proposed in the central budget for 1976-77.

This programme was intended to assist rural population to derive economic benefits from the development of assets of each area.

The programme with some modifications was introduced on an expanded scale in 1978-79, beginning with 2,300 blocks, of which 2000 were under common coverage with SFDA, DPAP and CADP, with another 300 blocks added up during 1979-80.

Its coverage was extended to all the blocks of the country since October 2, 1980. Besides the smaller and marginal farmers, this programme was more specific in regard to agricultural workers and landless labourers, and additionally brought within its purview rural artisans also.

The programme emphasised the family rather than the individual approach in the identification of the beneficiaries.

Unemployment

Meaning of Full Employment

Full employment refers to a situation in which all the workers who are capable of working and willing to work get an employment at reasonable wages. It does not imply that all adults have jobs.

Meaning of unemployment

Unemployment refers to a situation in which the workers who are capable of working and willing to work do not get employment.

Unemployment Estimates

A person working 8 hours a day for 73 days of the year is regarded as employed on a year basis.

The following are the three estimates of unemployment generated in the 27th round of NSS (National Sample Survey).

1. Usual Principal Status unemployment: It is measured as number of persons who remained unemployed for a major part of the year. This measure is more appropriate to those in search of regular employment e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'.

2. Weekly Status unemployment: It refers to the number of persons who did not find even an hour of work during the survey week.

3. Daily Status unemployment: It refers to the number of persons who did not find work on a day or some days during the survey week.

Causes of Unemployment

***1. High Population growth*:**

Due to rapidly increasing population of the country, a dangerous situation has arisen in which the magnitude of unemployment goes on increasing during each plan period.

***2. Insufficient Rate of Economic Progress*:**

The rate of growth is inadequate to absorb the entire labour force in the country. The opportunities of employment are not sufficient to absorb the additions in the labour force of the country, which are taking place as result of the rapidly increasing population in India.

3. Absence of employment opportunities in activities other than agriculture:

Agriculture is the principal area of employment in our country. Thus, pressure on land is high, as about 2/3 of the labour force is engaged in agriculture. Land is thus overcrowded and a large part of the work force is underemployed and suffer from disguised unemployment.

***4. Seasonal Employment*:**

Agriculture in India offers seasonal employment; thus agricultural labour remains idle during the off-season.

***5. Joint Family System*:**

Existence of joint family system in India promotes disguised unemployment. Usually the members of a family work on their family farms or do family business. There are more workers on a family farm than what would be needed on them.

***6. Increasing turnout of students from Indian Universities*:**

During the last decade, educated unemployment has increased due to rapid turnout of graduates by the Indian universities. Moreover, in the Indian educational system, more emphasis is placed on engineering and other Technical subjects rather than on Arts subjects. But there is unemployment amongst technical graduates as well. There is a lack of proper vocational education in the country.

7. Slow Developing of Industries:

Industrialization is not rapid in our country and industrial labour finds few job opportunities. The agricultural surplus labour force is not absorbed by the industrial sector. This leads to disguised unemployment in agriculture.

Measures to Solve Unemployment Problem in India

A close reading of the Five-Year Plans reveals that in every Five-Years Plan, employment expansion has been emphasised as an objective of development.

The following measures have been suggested for solving the unemployment problem in our country:

1. A Change in the pattern of investment

The planning process in the initial stages gave importance to an investment-allocation pattern with a high capital-labour ratio. Therefore, a shift in the emphasis to mass consumer goods industries would generate more employment to absorb the unemployed labour force. Moreover, increase in the supply of such goods may help arrest the rising price-level and increase the economic welfare of the people. This is the wage-goods model of development suggested by Vakil and Brahmanand.

2. Encouragement to small enterprises as against big enterprises

The employment objective and the output objective can be achieved, if greater investment is directed to small enterprises rather than to large enterprises. Now that the Government wants to undertake decentralised development with emphasis on small-scale enterprises, it would be desirable to reorient credit, licensing, raw material allocation and other policies in such a manner that both employment and output are enlarged simultaneously.

3. Problem of Choice of technique

It would be better to switch over to intermediate technologies till the process of industrialisation gets such a powerful momentum that the new entrants to labour force can be absorbed. During the period of rapid growth in the labour force, it would be advisable to adjust the choice of techniques consistent with the employment objective. Intermediate technology would be more suited to Indian conditions.

4. Encouragement of New Growth Centres in Small

Towns and Rural Areas

Experience of planning has revealed that the overcrowded metropolitan centres have received a large share of investment. Therefore, the smaller towns should be developed as new growth centres for the future. The establishment of small industrial complexes can increase employment opportunities and provide flexibility to the economy.

5. Subsidies on the Basis of Employment

All schemes of subsidies and incentives to large and small industries have helped output maximisation and greater use of capital resources. The pattern of subsides should be altered. Creation of more employment should be treated as the basis for the grant of subsides and incentives. This will shift the entire structure of government support from the large-scale producer to the small-scale producer as this is more consistent with the objective of employment generation and achieving equality and social justice.

6. Reorientation of Educational Policy

One great defect of our educational system is that it leads one to take up the professional degree only. The high degree of unemployment among the educated signifies the urgent need to reorient our educational system to greater employment opportunities. Education system should be more diversified. It should have more short term vocational courses that will cater to the local employment needs. Development of quality education is a prerequisite for the development of a nation as it is the remedy for all problems including the problem of unemployment in the country. Hence, a high priority needs to be accorded for education in public expenditure.

7. Underemployment in Rural Areas

N.S.S. data have revealed the existence of a high degree of underemployment in India. The total number of underemployed persons available and willing to take up additional work is estimated to be more than two crores. It is necessary to organise the Rural works Programme. Failure of implementation of Rural Works Programme underlines the relatively low importance given to the rural sector to provide additional employment to millions of landless labourers and small and marginal farmers. Urgent action is needed in this direction so that work opportunities grow in the rural areas. This will raise the level of income and employment in rural areas and reduction in poverty levels.

The Finance Commission of India

The **Finance Commission of India** came into existence in 1951.

It was established under *Article 280* of the Indian Constitution by the President of India.

It was formed to define the financial relations between the centre and the state.

The Finance Commission Act of 1951 states the terms of qualification, appointment and disqualification, the term, eligibility and powers of the Finance Commission.

As per the Constitution, the commission is appointed every five years and consists of a chairman and four other members.

Functions of the Finance Commission

- Distribution of net proceeds of taxes between Centre and the States, to be divided as per their respective contributions to the taxes.
- Determine factors governing Grants-in Aid to the states and the magnitude of the same.
- To make recommendations to president as to the measures needed to augment the Consolidated Fund of a State to supplement the resources of the panchayats and municipalities in the state on the basis of the recommendations made by the Finance Commission of the state.

The Finance Commission (Miscellaneous Provisions) Act, 1951

It lays down rules regarding qualification and disqualification of members of the Commission, their appointment, term, eligibility and powers.

I. Qualifications of the members

The Chairman of the Finance Commission is selected among people who have had the experience of public affairs. The **other four other members** are selected from people who:

- Are qualified, as judges of High Court, or
- Have knowledge of Government finances or accounts, or
- Have had experience in administration and financial expertise; or
- Have special knowledge of economics

II. Procedure and Powers of the Commission

- Have all powers of the civil court as per the Court of Civil Procedure, 1908.
- Can summon and enforce the attendance of any witness or ask any person to deliver information or produce a document, which it deems relevant.
- Can ask for the production of any public record or document from any court or office.

- Shall be deemed to be a civil court for purposes of Sections 480 and 482 of the Code of Criminal Procedure, 1898

III. **Disqualification from being a member of the Commission**

A member may be disqualified if:

- He is mentally unsound;
- He is an undischarged insolvent;
- He has been convicted of an immoral offence;
- His financial and other interests are such that it hinders smooth functioning of the Commission.

IV. **Terms of Office of Members and eligibility for Reappointment**

Every member will be in office for the time period as specified in the order of the president, but is eligible for reappointment provided he has, by means of a letter addressed to the president, resigned his office.

V. Salaries and Allowances of the members

- The members of the Commission shall provide full-time or part- time service to the Commission, as the president specifies in his order.
- The members shall be paid Salaries and Allowances as per the provisions made by the Central Government.

The Planning Commission

After independence, a formal model of planning was adopted, and accordingly the Planning Commission, reporting directly to the Prime Minister of India was established on 15 March 1950, with Prime Minister Jawaharlal Nehru as the chairman.

The Planning Commission does not derive its creation from either the Constitution or statute, but is an arm of the Central/Union Government.

Indian economy is based on the concept of planning. This is carried through by five-year plans, developed, executed and monitored by the Planning Commission.

With the Prime Minister as the Chairman, the commission has a nominated Deputy Chairman, who has rank of a Cabinet Minister.

Montek Singh Ahluwalia is currently the Deputy Chairman of the Commission.

Sudha Pillai is current secretary of the commission.

The National Development Council (NDC)

The **National Development Council** (NDC) or the Rashtriya Vikas Parishad is the apex body for decision making and deliberations on development matters in India, presided over by the Prime Minister.

It was set up on 6 August 1952.

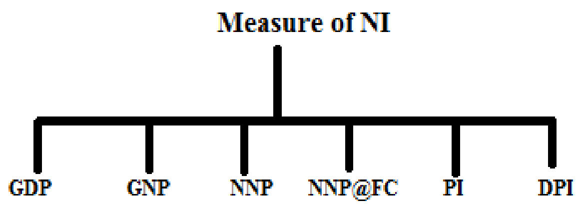
To strengthen and mobilize the effort and resources of the nation in support of the Plan, to promote common economic policies in all vital spheres, and to ensure the balanced and rapid development of all parts of the country.

The Council comprises the Prime Minister, the Union Cabinet Ministers, Chief Ministers of all States or their substitutes, representatives of the Union Territories and the members of the Commissions.

It is an extra-constitutional and non-statutory body. Its status is advisory to Planning Commission but not binding.

National Income

[NI of a country is the total value of all final goods & services produced in the country in a particular period of time]



1.GDP

The total value of final goods & services produced within the boundary of the country during a given period time. (citizen as well as foreigner)

GDP = Q X P

Q – total quantity g & d produced in the outers.

G & D of cities for within boundary.

P – price of g& d

2.GNP

GNP is the total value of the total output or production of final goods & services produced by the nationals of a country cluing a given period of time. All resident of non-resident citizens of a country is included. Where as the income of foreign nationals who reside within the geographical boundary of the country is excluded.

It is calculated from GDP

GNP = GDP + [X - M]

X(export) = inward remittance of a country in respect of the goods produced and services rendered by national of a country abroad.

In (import): outward remittances of a country from the goods produced and services rendered by foreign national of the country in a domestic area.

X-M is called as Net factor income from aborad.

GNP = GDP & net factor income from aborap

3.NNP

NNp is arrived after deducting depreciation from grows national product.

NNP = GNP – Depreciation (wear & tear of goods)

NNP is calculated with market price. The market price includes (IT) & excludes subsidies that are made to produce goods & services. This is called NNP at marked price (NNPMP)

4.NNP @ FC

NNP @ FC is calculates national income only on the basis of cost incurred only on the basis of cost incurred to produce the goods & services. The cost is the payment made to the factors of production. The factors of production are land, labour, capital and entrepreneur. For this, the indirect tax is deducted from (NNP @ MP). Then the subsidies given to produce goods & services are added.

NNPFC = NNPMP – Indirect taxes + subsidy.

5. PERSONAL INCOME

1. PI is the sum of all the income received by the entire people of the country in a year.
2. The whole national income is not available to individuals of a country.
3. Some part of national income are not available to individuals of country.
4. At the same time, some monetary payments made to them is not included in national income.
5. So, to calculate PI, parts of National income that are not available to individuals.

PI = National Income + [(Transfer payments) – (Undistributed profits of corporate + payments of social security provision)]

PI= National income + net transfer payments.

- Usually the corporates do not distribute the whole profit to shareholders. A portion of profit is kept with them to meet future expenditure and expansion. This is called undistributed profits of the corporates.
- Payments for total security provision are payments made by employees towards pension and provident fund.
- Transfer payment means the payment that are made not against any productive activity on the part of the receiver. Ex:- pension, unemployment compensation, disaster relief payment, interest paid on public debt, etc.

6.DISPOSABLE PERSONAL INCOME (DPI)

DPI means the income that is available to individuals that can be disposed (spent) at their will. All the personal income cannot be spent by individuals.

Disposable PI = PI – Direct Taxes

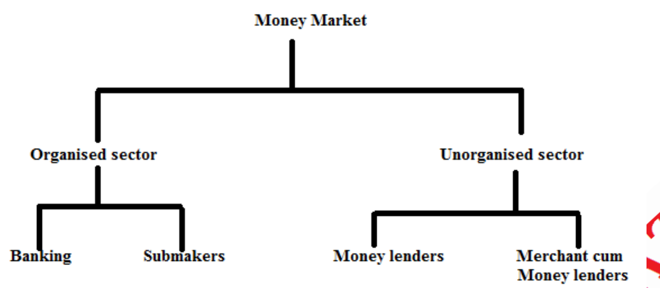
The Financial system of India

It refers to the institution of borrowing and lending of funds or demand for the supply of funds of all individuals, institution and companies of the government.
It can be clarified into two broad categories are.

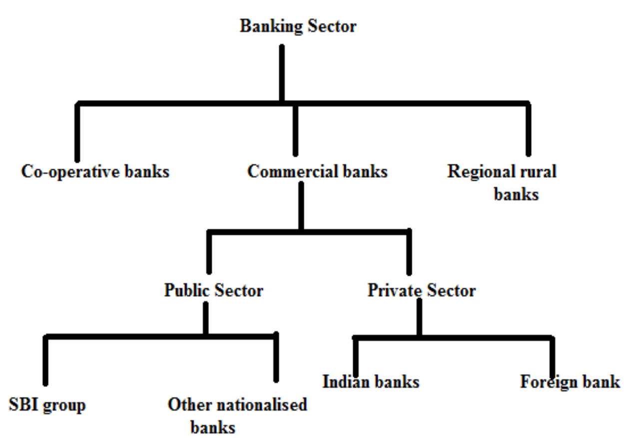
1. Money market
2. Capital market

1. Money Market is the market for borrowing and lending of short term funds, say up to 3 yrs.

Composition of money market
Money market of India has participates both from organised & unorganized sector. The organised sectors is characterized by registration, approval and license from market regulators and proper maintenance of accounts. The unorganized sector is devoid of these aspects.



1. Banking sector:
It carries out both the deposit taking and lending operations. It consists of commercial banks, regional rural bank & cooperative banks.



1. Commercial banks: are run on commercial basis. They accept deposits, give loans and provide other financial services to earn profit. These are regulated under banking regulation act 1949.

a. Public sector Banks: are those banks in which the majority of ownership is with government. The majority of ownership means, shareholding of more than 51%. All PSB were not started by government of India. Some banks which were in the hands of private were nationalised and made public sector banks.

1. State bank group: it means SBI & to associates previous name of SBI was imperial bank of India. It was created in 1921, by amalgamating the three presidency banks of Bengal (1806), Bombay (1840) and Madras (1843). Imperial bank of India was nationalises in July 1, 1955 and renamed SBI. In 1959, 8 banks of former princely states were brought under SBI & its associates.
1. SB of Bikaner, SBI of Jaipur
2. SB of Hyderabad
3. State of Indore, oct 2008
4. SB of Mysore
5. SB of Saurashtra
6. SB of Patiala & Travencore

2. Other nationalised banks
The nationalisation was carried out in two stages. 14 large commercial banks which had reserves more than 50 crores were first nationalized on 19th July 1969.
Central bank of India, Bank of India, Punjab National Bank, Canara Bank, United Commercial Bank, Syndicate Bank, Bank of Baroda, United Bank of India, Union Bank of India, Dena Bank, Allahabad Bank, Indian Bank, IOB, Bank of Maharashtra

Secondly, 6 banks were nationalized on April 15, 1980 which had reserves more than 200 or [Andhra Bank, Punjab & Sind bank, New bank of India, Vijaya bank, Corporation bank & Oriental Bank of commerce]

In Sep 1993, New bank of India was merged with Punjab National bank.

b. Private sector Banks:
It consist of both Indian bank as well as Foreign banks.
1. Indian banks:- classified as old & new private sector banks. This classification is done by RBI for the convenience is done by RBI for the convenience of comparing performance of all Indian banks.
i) Old Banks: private banks & those Banks which were set up before 1990 are called old banks.
ii) New Banks: Banks set up in the private sector after 1990 are called new banks. 12 new banks list.

1. UTI Bank/Axis
2. Indus Ind Bank Ltd
3. ICICI Bank

4. Global Trust Bank/merged with oriental Bank of commerce 2004.
5. HDFC
6. Centurion bank
7. Bank of Punjab
8. Times Bank
9. IDBI Bank Ltd
10. Development Credit Bank
11. Kotak Mahindra Bank
12. Yes Bank Ltd.

in 2004 IDBI Bank Ltd was merged with Parent IDBI, a development financial institute. Centurion bank was merged with Bank of Punjab & named as centurion Bank of Punjab, further centurion Bank of Punjab merged with HDFC in 2006.

2. Foreign Banks:-

After 1991, economic reforms, India opened the door for foreign banks, citi bank, Barc lays & ABN Ambro are ten foreign banks.

Indian banks Abroad:-

Like foreign banks set up in India so that Indian banks set up their branches in Foreign countries both branches in foreign countries both public & private sector banks have branches abroad. Bank of Baroda has the highest number of branches followed by SBI and Bank of India.

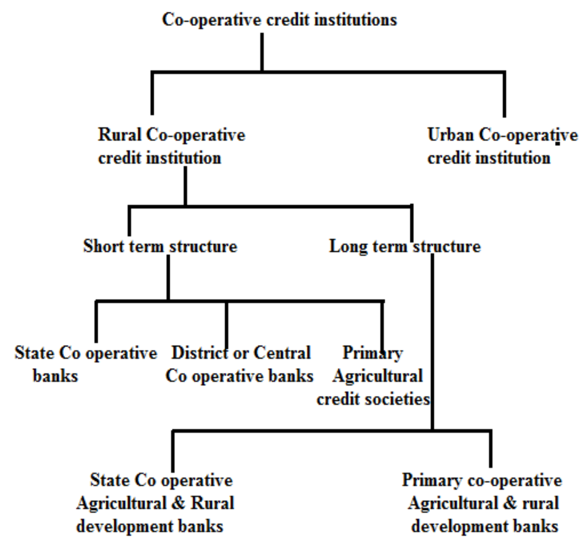
2. Regional Rural Banks (RRB)

There were established since 1975, under RRB Act 1979.
RRB were set up in all states except Sikkim & Goa.
Totally 196 banks were set up. Since April 1987, no new RRB has been opened due to the kerkar committers recommendations.
RRB were set up by Public Sector banks. The public sector bank which set up a particular RRB is called sponsor bank of that RRB.
RRB were established to lend to weaker section called target group like landless labour artisan and craftsmen at concessional state.
From 1997, RRBs were found to lend outside the target group.

3. Co-operative banks:

- C bar established by state laws.
- CB are established with the aim of funding agriculture and allied sectors and to finance village and cottage industries.
- They operate on the principle 'one person, one vote' in decision making.
- NABARD is the apex body of cooperative sector in India.
  - ⇒ NABARD is also called as the National bank.
  - ⇒ Its Functions are financing of agriculture and refinancing of cooperative banks & RRB was done by Agriculture Refinance Development Corporation (ARDC) of RBI.
  - ⇒ NABARD was set in July 1982.
  - ⇒ It took over the function of (ARDC)

The composition of cooperative Banks



1. Short term structure:

It lend for cultivation acitvities and provide working capital to buy seeds, fertilizers etc.
It has 3 tiered structure
a) State Co-operative Bank
b) Central-District Co-operative Bank
c) Primary Agricultural Credit societies.

a) State co-operative Bank [SCB]

- ⇒ Each state has its own state co-operative Bank. It is the Apex body for cooperative banks in a particular state
- ⇒ They act as a mediator between RBI and NABARD on one side and central or District co-operative Bank primary Agricultural credit societies on other side.
- ⇒ They get loan from RBI
- ⇒ Now, the intermediation of these banks is abolished by a MOV between RBI and there banks.
- ⇒ Now, RBI has direct dealing with low tier cooperative banks.

b) Central or District co-operative banks:-

- ⇒ It operates at district level .
- ⇒ Its operational area is limited to one district
- ⇒ There two types of central co-op banks are:-

1. Co-operative Banking union
2. Mixed central co-operative bank

1. Co-operative Banking Union:-

The membership of co-operative banking union is open only to co-operative societies.

2. The membership of mixed central co-operative bank is open both to co-operative societies & individuals.

The central or district co-operative banks get loan from SCB. They grant loans to PAC and individuals. PAC give loan to its members that are individuals.

C. Primary Agricultural credit Societies:-

⇒ These are at village level

⇒ They provide short-term loan to agriculture [1-3 years]

⇒ Minimum 10 persons can together start a primary Agricultural credit society.

2. Long term structure:

- Long term structures lend to meet medium and long term fund requirements, ranges from one and half year to 25 years.
- They lend for land development, construction of wells, purchase of pump sets, redemption of old debts, etc.
- These banks initially were called as mortage banks. Earlier they were called land development banks. Now they are called co-operative agricultural & rural development banks [CARD Bs]

2. Urban Co-operative Credit Institution

The co-operative banks set up in the urban and semi urban areas are called urban co-operative credit institution. They mainly lend to small borrowers and business.

2. Sub Markets:

- Sub Markets are markets to generate resources needed for government Financial institution and industries in the short run.
- The sub markets is divided into various segments. They are:-

1. Call Money Market:

- It is also know as money at call and short notice market .
- It deals in loans for a period ranging from one to 14 years.
- It is an inter-bank borrowing and lending market
- One bank demand money from another bank to cover its cash reserve requirements with RBI every fortnight and to gain from foreign exchange market.
- It has two segments, there are:
  a) Call market (or) overnight market is a market for borrowing and lending of money between banks within one day.
  b) Short notice market is a market for borrowing and lending of money between up to 14 days.

  The rate at which funds are borrowed in these markets is called call money rate.

2. Bill Market (or) Discount market

In bill market short term funds (90 days) are brought and sold. The bill market consists of two markets. They are:

a) Commercial Bill market: are bills other than treasury bills. They are issued by industries and traders.

b) Treasury Bill Market: are securities issued by government treasury. They are of short term in nature.

In this regard, they differ from market loans. They are non-interest bearing (zero interest/zero coupon) these kinds of bonds are called zero coupon bonds. They are issued at discount rates.

There are two types of treasury Bills, they are:-

a) Ad hoc Treasury Bills:-

It is issued for a particular and or case in hand. Till 1991-92 there was only treasury bill of 91 days are called Ad-hoc Treasury bill.

It was discontinued from 1997-98

b) Regular Treasury Bill:

These bills are issued regularly to meet budgetary expenditure.

There are number of treasury bills of cliffering maturity

In 1998-99, 182 days treasury bill were introduced . 14 days treasury bills were introduced in 1999-2000

3. Certificates of Deposits:- (CD)

These are introduced by commercial Banks and Financial institutions to raise additional Fund. Maturity period rangs from 3m – 1y for banks and 1y – 3y for fina inst.

4. Commercial Papers (CP)

It was introduced in 1990. Commercial papers are issued by corporate, primary dealers and the All-Indian financial institutions to raise fund.

2. Unorganised Sector:

The unorganised sector banking is not a registered and regulated one. They do not maintain proper account. The interest rate is usually high in unorganised sector. The lending & borrowing operation is less because many procedures followed by banks are not followed in unorganised sector.

It has two types, they are:-

1. Money landers:

The money landers are exclusively engaged in money landing operations. It is their source of livelihood.

2. Merchant cum money landers:

They are engaged in merchandising and money lending. They land to produces of the product in which they merchandise. The produces have to sell their products only to the lander. In this case merchant cum money landers usually purchase products at low price.

India – ASEAN FTA

India had recently concluded FTA with ASEAN (10 countries) in goods. It will become Operative from January 1, 2010.

Features of FTA:

1. Duty Free Access:

As many as 4185 items would be opened for duty free access, comprising of processed food, agricultural products, garments, iron & steel & host of other products.

2. Sensitive lists:

a) 489 articles on which concessional tariffs do not apply.

b) 590 articles on which tariffs will not be eliminated. They are mostly plantation items.

3. Tariff reduction:

Tariffs on most commodities shall be reduced b/w 2013 & 2016, while the process of reduction will continue till 2023.

4. Tariff rate:

The average tariff on most of commodities (4185) in India is 10% while peak rate of duty in ASEAN is 5%, hence India's reduction commitment would be more than ASEAN group.

5. Mutual Recognition Agreements (MRA):

Under this there will be plenty of opportunities for professionals like architects, doctors, CA's to seek jobs there

Benefits:

- Trade between 2 blocks will increase from $40 bn to $60 bn
- ASEAN is India's 4th largest trading partner & it will benefit 170 cross of consumers.

Future Prospects:

When the free trade in services also comes into effect, it.

- Offers more visas to Indians to work there.
- India enjoys edge in large number of services.
- Interests of Indian investors will be protected.
- Signing of CECA

Concerns:

- Indian plantation sector especially Kerala farmers.
- Rules of Origin | Chinese goods passing through ASEAN markets.
- Protectionist measures by India | Fear of ASEAN

Foreign Trade Policy

The new FTP is a five year policy from 2009-2014

Aim:

- To arrest & reverse the declining trend of exports.
- Target of $ 200 bn worth exports for the next fiscal.
- To double the export of goods & services by 2014.
- Long term objective : To double India's share in global trade by 2020.

Features of FTP:

1. Incentives to explore new markets:

Various sops & incentives for exporters who explore markets in Asia & Africa & to look beyond US & European markets.

26 new markets had been identified for export incentives in Latin America, Asia & Oceania.

2. Gems & Jewellery Sector:

Boosting exports by allowing duty drawback on exports.

3. Handloom & Handicrafts sector:

Help under market development scheme.

4. Schemes [Export Promotion]

- Continuance of duty refund scheme & DEPB scheme till Dec 2010.
- Interest subsidy for exporters of 2% for pre-shipment credit.
- Additional resources provided under
  MDAS | Market D vt Assistance scheme
  MAIS | Market Access Initiative scheme.

5. Short term Relief:

Providing dollar credit to exporters overseen by a high level committee comprising Finance secretary, commerce secretary & IBA

6. Estd of (Directorate of Trade Measures)

Provide help to small & medium scale exporters to export their goods to foreign markets.

7. Income Tax Exemption:

Extension of IT holiday for EOU for one more years.

8. Brand India:

Govt to promote 'Brand India'in Made in India shows across the world every year.

9. Govt to make India as diamond trading hub.

National Pension Scheme

NPS implemented from May 1 2009 covers all the citizens of India & thus provides social security cover to entire unorganized sector in the country.

Features of NPS:

1. Covers every citizen in the age group of 18-55 years.
2. It will be regulated by PFRDA
3. Pension fund managers appointed to manage these funds, which include SBI, LIC, ICICI & UTI asset Mgt company
4. There will be depository participant viz. NSDL to prepare the database of beneficiaries.
5. 23 points of presents have be appointed to collect contributions from beneficiaries willing to join the scheme.
6. Irrespective of one's occupation, open to cobblers, washer man, Rickshaw pullers, etc., & anyone can join the scheme.
7. Minimum contribution is Rs.500/month.
8. Investors will be offered 3 choices to invest their corpus

i) Equity (High risk)
ii) Corporate bonds / Fixed deposits (Med risk)
iii) Govt securities (Low risk)

9. There will be a cap of 50% of total corpus of investor that he can opt to be invested in equity.
10. Switch over option is also available for the investor.
11. The entire corpus can't be withdrawn by beneficiary before the age of 60 yrs.
12. The amount withdrawn at final stage is subjected to taxation.

G-20 London declaration

G-20 summit held at London in Apr 2009. The meet held on the backdrop of global financial crisis

The meet resolved to ensure inclusive & co-ordinated growth.

Declaration

1. Strengthening (global financial markets)

- Set up a financial stability board at global level
- Early warning system to predict global economic crisis
- Against hedge funds, credit rating agencies & tax havens.

2. Strengthening IMF & World Bank:

- **IMF:** Additional quotas & SDR allocation, revision of quotas for developing countries.
- **World Bank:** Augment the resources of WB by additional contribution by member countries. ($ 100 bn)

3. Against Protectionism:

- Ensure free flow of trade & investment by resisting protectionist measures.

4. Ensure growth, Social Justice & achievement of MDG:

- Aid for trade & debt relief measures for world's poorest countries.

5. Provide stimulus package for inducing demand in the domestic market.

GOODS & SERVICES TAX

GST was recommended by Kelkar Task Force on implementation of FRBM Act 2004. It was the ultimate reform in indirect taxation making one country, one indirect tax.

Features of GST:

1. Subsume a large no. of state indirect taxes as well as 2 major central indirect taxes into a simplified GST
2. It will be a simplified dual GST with central & state level tax rates.
3. It will be of value added tax in which setoffs would be available in previous transactions, so that it would end up as a final point retail tax with consumer bearing the burden.
4. 12% = 5% to central , 7% to state

Merits of GST:

- Unification of Country's indirect tax structure
- Integration of Indian economy with global economy since 145 countries has GST at now
- Revenue surplus for the government in a very short time
- Lesser burden on consumers leading to increase in consumption & consequent increase in production & GDP
- Many small entrepreneurs would disclose their incomes & direct taxes go up.
- Impossible to evade indirect taxes.

Problems:

- Sharing – State's autonomy of revenue b/w centre & states
- Tax on inter-state trasactions
- Maintaining books & accounts
- Compensation in initial periods (50,000 cr & 5 yrs)

Corporate Governance

Implies running a company on the basis of ethical standards in relation to all those who are directly or indirectly concerned with the company

Indian Scenario:

In India, corporate governance is enforced through clause 49 of company Act by SEBI for listed companies. For other companies, the relevant provisions of company Act have to be followed.

Clause 49 lays down:

1. Listed companies should inform the stock exchange regarding composition of the board, auditors, various transactions, financial partners, subsidiary companies, etc.
2. Within 15 days of end of every quarter, listed companies should submit a report to stock exchange to conform to guidelines of corporate governance.
3. Appointment of independent directors, who are responsible for enforcing corporate governance.

Problems in India:

- Stock exchange fears that if it takes action against any company, then share holders will be affected.
- India has poorest track record of conviction in the event of corporate fraud. Only 5% of cases are ultimately convicted.

Recommendations:

1. Vaish Committee, 2005:

Doing away with petty cases & speedily resolve major cases by setting a serious Fraud investigation office (SFIO)

2. Kania Committee

Sever monetary penalty for corporate frauds

Need for Corporate governance

- Instill confidence in investors / share holders
- To attract FDI in India
- Credibility of India

Recent Corporate Fraud:

Satyam scam, 2008 | Ramalinga Raju shown false profit of Rs. 7500 crore

FDI in Retail

India permits 100% FDI in wholesale trade & 51% FDI in single brand retailing but kept multiband retailing in negative list.

Reasons:

- Adversely affect the livelihood of small neighbourhood stores
- Large scale unemployment
- Price rise

Merits in permitting Multiband Retail:

- Give big boost to India's food processing industries.
- Foster greater interdependence b/w agriculture, industry & service sector as food processing industry develops.
- Generate substantial linkage effects & thereby generate large scale employment in agri, industry & service sector.
- Give boost to India's export of processed food.
- Bring about technology transfer from MNCs into domestic industry.
- Forces Indian entities to enter into organized retail segment thereby creating competition which ultimately benefits consumers.

Based on above reasons, multiband retailing had been recently opened up for FDI in India.

India's response to global credit crisis

India responded to global credit crisis by resorting to

1. Fiscal Policy

It refers to government's revenue, expenditure & borrowings.

Government resorted to centra-cyclical fiscal policy in response to global economic crisis. Centra-cyclical fiscal policy refers to borrowing by the government & spending on infrastructure projects that in turn create job & income to the people. Hence demand is created resulting in economic recovery. Thus it is a demand generating fiscal policy.

Indian government spending includes-

- Infrastructure projects
- Public works programmes | NREGS
- Debt waiver
- Food & Fertilizer subsidies
- 6th Central pay commission
- Reduction of certain taxes

2. **Monetary Policy:**

India had pursued a loose monetary policy 60 cope up with economic recession

- Soft interest rate refime
- Infusion of liquidity into the economy
  Take care of toxic assets of banks
- Allocation & diversion of funds to realestate sector infrastructure sector
- Reduction of short term interest rates
- Liberalisation of ECB windows
- Lowering of CRR to improve liquidity in Banks

3. Trade policy:

Trade policy involved incentives to promote exports.

- Opening a separate line of credit for EXIM Banks
- Duty concessions & refunds to labour intensive exports like textile, leather, gems & jewellery etc.
- Interest relief on pre-shipment & post shipment credits for exporters.

- Blanket reduction in customs & excise duties.
- Waiving of counter vailing duty (CVD) for all such imports used by sectors which were most affected.
- RBI makes available additional funds in commercial banks for lending to exporters.
- Export incentives in search of new markets in Latin America, Asia, Africa & Oceania

By the above ways, the GDP of first quarter appears 6.1% which shows signs of economic recovery. The first sector to show signs of recovery was real estate followed by manufacturing & infrastructural sector.

Reform of International Financial Institutions

The need for reform of the Brettonwoods twins viz., IMF & world Bank has become much more urgent & inevitable in view of the current global economic crisis.

The proposed reforms are:

1. Monitoring Mechanism:

Setting up of a monitoring mechanism within IMF for early warning signals in terms of mismanagement of international liquidity.

2. Voting rights enhancement

Enhancement of voting rights of the emerging in IMF so that they have better say & voice in day to day functioning & policy making of these institutions

3. Augmenting Resources:

Strengthening & augmenting resources of these institutions so as to enable them to meet the growing requirements of growing economies.

4. Appointment on Merit basis:

Appointment of the heads of these institutions on the basis of merit & not based on geography.

5. Strengthening SDR:

Increase in allocation of SDR for developing countries & strengthening SDR as reserve currency by larger representation & weights.

Reduction of SDR allocation for OECD countries as more often they lie idle.

6. Global Financial Stability Board:

Estd of GFSB which should closely work with IMF to prevent further crisis.

7. Revision of IMF quotas:

More frequent periodical revision of IMF quotas.

8. World Bank lending:

World Bank's lending must go to least developed countries whose percapita income is less than $ 100.

Droughts Relief

- Ban on export of food items
- Resorting to import of food grains.
- Invoking provisions of Essential commodities Act
- Invoking provisions of ESMA
- Strengthening PDS
- NREGS in drought affected districts | supplement income
- Giving food grains as wages in NREGS
- Tube wells in drought affected areas
- Diesel subsidies for pump sets in drought affected areas.
- Additional power supply to drought affected areas.
- Strict measures against

a) Hoardes b) Speculators c) Black market

Oil Sector Reforms

Reasons:

- To do away with the issue of oil bonds
- Do away with unproductive subsidies
- Resorting back to market determined pricing mechanism

Reforms:

1. Fortnightly / monthly increase in prices of petrol & diesel upto March 2010 so that they get aligned with international prices.
2. To Impose tax on pre-NELP blocks
3. Phasing out of Subsidized LPG supply over next 3 years.
4. Car users in metro to pay higher price for petrol.
5. Cash subsidies in case of agriculture & vulnerable sections of societies.
6. Doing away with administered price mechanism & bringing back market determined price mechanism
7. Doing away with the policy of cross subsidization.