Datt & Sundharam's

72e

Indian Economy

Union Budget
2015-16 to 2019-20
An Analysis

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Datt & Sundharam's

Indian Economy

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S. CHAND
PUBLISHING
S Chand And Company Limited
(ISO 9001 Certified Company)

S Chand And Company Limited

(ISO 9001 Certified Company)

Head Office: Block B-1, House No. D-1, Ground Floor, Mohan Co-operative Industrial Estate, New Delhi – 110 044 | Phone: 011-66672000

Registered Office: A-27, 2nd Floor, Mohan Co-operative Industrial Estate, New Delhi – 110 044

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First Edition 1965

Subsequent Editions and Reprints 67, 68, 69, 70, 71, 72, 73, 74 (Twice), 75,76 (Twice), 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 90, 91, 92, 93, 94, 95 (Twice), 96, 97 (Twice), 98 (Twice), 99 (Twice), 2000 (Twice), 2001 (Twice), 2002 (Twice), 2003 (Twice), 2004 (Twice), 2005 (Twice), 2006 (Twice), 2007 (Twice), 2008, 2009 (Twice), 2010, 2011 (Twice), 2012 (Thrice), 2013 (Twice), 2014, 2015 (Twice), 2016 (72nd Edition), 2016 (Reprint with Updates), 2018 (Reprint with Updates)

Reprint with Updates 2020

ISBN: 978-93-525-3129-5 **Product Code:** H5ECI41ECON10ENCT16O

FOREWORD

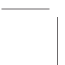
As many of the readers of this book know, Professor Ruddar Datt passed away on March 19, 2009, after a sudden and short illness, thus ending our very productive partnership on this book of nearly 44 years, since the first edition of the book appeared in 1965. The longevity of the book speaks of the trust the readers have placed in this enterprise. It also speaks of the importance to continue the enterprise.

With that objective, beginning with this edition, the baton is being passed onto the next generation of authors: to Gaurav Datt, who as Professor Datt's son has been contributing to the development of the book in various forms for over two decades, and to Ashwani Mahajan, who has already been associated with the book playing a key role in its revision for the last three editions. The book is being re-titled ***Datt & Sundharam's Indian Economy*** which is how it has come to be popularly known as.

A particular strength of the book has been its regular and continuous revision. It has been in the nature of a living document, describing and analyzing the ever-changing complex of issues facing India's economy in a non-ideological fashion. Over successive future editions, the book will naturally continue to evolve as new issues emerge in the Indian economy, and also as the new authors gradually but inevitably begin to put their stamp on the book.

I will continue to be as actively involved as possible in the future development of the book. I am confident that through this transition, the essential character and strengths of the book will not only be maintained but also be enhanced.

K. P. M. SUNDHARAM



PREFACE TO THE SEVENTY-SECOND EDITION

We place on record our sense of gratitude to students and teachers of Economics for appreciating our work. It has accorded us an opportunity to bring out the Seventy-Second Edition.

The new Government took over the rein of power in May 2014; and since then, a series of policy measures have been rolled out. The measures include JAM Trinity (combination of Jan Dhan Yojana, Aadhar and Mobile numbers), aimed at improving financial inclusion and making distribution of subsidies more efficient by plugging leakages; the initiative 'Make in India' for lifting of manufacturing sector; enhanced cap and easier norms for FDI in various sectors; Gold Bond Scheme for discouraging imports of gold and bringing unproductive gold stocks out for investment; efforts aimed at improving ease of doing business and many others have been announced and implemented. It is yet to be seen how these measures fructify to rejuvenate the economy and improve the life of people. In the meanwhile, GDP growth during 2014-15 is estimated to be 7.3 per cent as per the Provisional Estimates.

Nevertheless, Indian economy has started showing signs of strength after a spell of slowdown in the years 2011-12, 2012-13 and 2013-14. For the year 2014-15, though the provisional estimates show a dismal picture for 'agriculture, forestry and fishing', 'mining and quarrying', 'construction', etc.; most of the other sectors have shown better results than previous three years. International agencies like International Monetary Fund (IMF) have opined that Indian economy is at a 'bright spot' and in the coming years, it would be the world's fastest growing large economy, surpassing China. International rating agencies have also mended their attitude towards India and agencies like Moody's and Standard and Poor's have initiated the process of changing India's credit rating. It is heartening to note that Indian economy is expected to grow at nearly 8 per cent in 2015-16; consumer inflation has cooled down to less than 5 per cent now, while wholesale price inflation is near zero. Thanks to a drastic fall in international crude prices and measures adopted by the Government including curbs on gold imports, Current Account Deficit (CAD) in Balance of Payments has come down from $88.2 billion in 2012-13 to $32.4 billion in 2013-14 and $27.9 billion in 2014-15. Economic Survey, released immediately before presentation of Union Budget 2015-16, stated that economy is at a rare 'sweet spot'. Indian economy has recorded 7.3 per cent GDP growth in 2014-15, as compared to 6.9 per cent in 2013-14 (as per the new base year and methodology in line with international standards). It is also important to note that the estimated GDP growth for 2014-15 is definitely higher than the GDP growth in China, which is estimated to be 7.1 per cent. Therefore, amongst the large economies, India has the distinction of having the highest rate of GDP growth.

On the global front, though USA is seemingly out of the economic crisis it has been passing through since 2007-08; experts differ on whether recovery of US economy is real or superficial. Similarly, though Euro Zone as a whole has reported 0.9 per cent growth last year, many of the European economies continue to be under recession, and some of them including Greece are facing huge problems. Global economic growth, which in general, had been gradually slowing down from 3.9 per cent in 2011 to 3.2 per cent in 2012 and 3.0 per cent in 2013, has shown an uptrend and recorded a rise to 3.7 per cent in 2014. It is generally believed that riding on the policy of Quantitative Easing (QE), United States has embarked on the path of recovery from its economic crisis. However, for sometime, Federal Reserve (Central Bank of USA) has been trying to retreat gradually from the policy of QEs. With this, we find currencies of all major emerging economies depreciating fast, as this receding in QEs by USA has been affecting flow of capital into these economies. It is notable that although currencies of almost all emerging economies, including Brazil, South Africa, etc., weakened vis-à-vis US$; rupee weakened against the dollar much faster, by 26.5 per cent between March 2013 and August 2013. Though rupee appreciated later, before depreciating again since May 2015; weak rupee continues to be a cause of major concern for Indian economy.

Though at the outset, seemingly, after passing through one of the most difficult phases, Indian economy is out of the blues 6 GDP growth picking up, CAD shrinking, wholesale inflation down to zero 6 worries for the policy makers are not yet over. Despite the fact that CAD is down to $ 27.9 billion and FDI inflow peaking at $44.3 billion in 2014-15, depreciation in rupee continues to worry the policy makers. Earlier, to somehow combat inflation, RBI had been making all out efforts in the form of tight money policy and raised repo rate several times [repo rate, which was 5 per cent in 2010 was hiked to 8.5 per cent by 2012]. Though in the recent past, RBI has cut down repo rate by 1.25 per cent in four installments, since January 2015, it is still believed to be high at 6.75 per cent. High interest rates, which have been threatening to stall economic growth in general and industrial & housing growth in particular are down; though not lower enough to foster growth. RBI, which has reduced policy rates in the last one year, had to continue with its tight money policy primarily due to weak rupee. Under the circumstances, high interest rates diminished the hope for any fast revival, especially in infrastructure, housing and industrial growth. The RBI has now decided to revise the algorithm used by banks to calculate the 'base rate'. It is hoped that this revision will really facilitate the banks to pass on the benefits of easing of monetary controls by the central bank to the borrowers, which can go a long way to increase credit offtake from the financial institutions.

We note that the rate of growth of GDP never touched 9 per cent during 11th plan period, except for the year 2007-08. In the 11th plan (2007-12), overall rate of growth of GDP was 7.9 per cent. Underachiever was agriculture, rate of growth of which remained low at 3.3 per cent over the plan period, as compared to the target 4 per cent growth. We do find that target rate of growth was more or less achieved in case of industry and services. In fact, during the 10th and 11th plans, agriculture could grow at only 2.1 per cent annually. With other sectors growing at much faster rates, the continued slow rate of growth of agriculture in successive years has resulted in a decline in the share of agriculture and allied sectors in GDP at factor cost. Though agriculture sector has shown relatively better results in the recent years, owing to agriculture constantly lagging behind, the nation has been facing, high rate of food inflation. The shortage of food products continues to affect major sections of our society.

The process of economic reforms initiated by the Congress Government headed by the former Prime Minister P. V. Narsimha Rao in June 1991 has completed 24 years. With firm data now available for over two decades of the introduction of economic reforms, it is now possible to undertake an informed stocktaking of the reform process, its merits and shortcomings. An effort, therefore, been made in this revised edition of the book to assess the impact of reform measures on the Indian economy. The Industrial Policy of 1991, while abolishing licensing, freed the private corporate sector to undertake investments in a much more congenial environment. By clearing the cobwebs of unnecessary bureaucratic controls, the process of liberalization was strengthened. The Government has been wooing foreign capital by granting it a large number of concessions. Although the official policy spoke of permitting a greater participation of foreign capital in hi-tech and priority areas like power, telecommunication, and petroleum refining only, in practice, the Government has opened the door to foreign collaboration in a much wider range of industries, including items of luxury consumption and even in highly labour-intensive sectors such as retail trade. The Congress, the United Front Government and BJP-led National Democratic Alliance; all followed this policy. At the same time, all of them have also avowed the goals of inclusive growth and eradication of poverty.

Today, the Indian economy is standing at the crossroads with rising debt, both domestic and external; deceleration in industrial growth; declining value of rupee and less than satisfactory performance of agricultural sector. While owing to economic reforms undertaken since 1991, the growth rate of the Indian economy improved to over 7.5 per cent, the rate of growth of employment has been barely 1 per cent per annum. NSSO's data has time and again established this fact. Alongside, another disturbing feature that is emerging about the employment scenario in the country is the fast declining number of self-employed and swelling ranks of casual labour. The main factors responsible for the situation are the neglect of agriculture and low priority accorded to small and medium enterprises – the main source of self-employment. Galloping inflation, especially of food products, on the one hand and economic showdown on the other, had forced the previous UPA government to put economic reforms on the backburner.

A thorough revision of the book was necessitated by these rapid changes taking place in the Indian economy. All these developments have been discussed at appropriate places in the book. Readers will appreciate that economic scenarios, both at the global and national levels, have been changing continuously.

It has been our endeavour to introduce new analysis by way of adding new section(s) and revising existing chapters for a better understanding of the evolving problems and opportunities for the Indian economy. Results of NSSO's 68th Round of All India Employment and Unemployment Survey and various other publications and reports have been incorporated in the book. A new chapter namely **'Fourteenth Finance Commission (2015-20)'** has recently been added in the book.

Following new sections have also recently been added in the book:

- **Central Government Budget 2015-16**
- **NITI Aayog**
- **A Note on Railway Budget 2015-16**
- **Debate on WPI versus CPI**
- **National Income Estimates Based on New Series**
- **Foreign Trade Policy 2015-20**
- **Emerging Issues in Black Money Stashed Abroad**

To catch up with changes occurring at national and international levels, an attempt has been made to evaluate the new policy initiatives. The book has been updated by using the latest information available from government and non-government reports, journals, other publications and mimeographed research articles and web-based sources. We request teachers, researchers and all those interested in the study of Indian economic problems to send us their comments and suggestions for further improvement of the book.

The views expressed in the book are those of the authors and should not in any form be attributed to the institutions they are affiliated to.

GAURAV DATT **ASHWANI MAHAJAN**

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PREFACE TO THE FIRST EDITION

India is a developing economy. The economic stagnation and the vicious circle of poverty which characterised the pre-independence Indian economy are slowly but steadily giving place to rapid economic activity and higher levels of income under the impact of economic planning. Our present economic ailments are those associated with or arising directly from the problems of economic growth. It is highly important that the Indian students at the undergraduate level understand and appreciate these problems.

The teachers of Indian Economics have, therefore, been feeling the need for a textbook which highlights the problems of growth and presents a new approach to the study of the Indian economy. We have made an attempt to discard the traditional approach to the subject and present a development-oriented study of the Indian economy.

The book is divided into six parts. In Part I, an analysis of the structure of the Indian economy has been given. The existence of the trap of underdevelopment equilibrium, the basic characteristics of the Indian economy, national income and its components, the distribution of national income and consumption pattern, the study of human and natural resources in the context of economic development, the problems of capital formation provide a broad cross-section of the Indian economy. To make the picture more complete, two chapters, namely, the sociological factors in economic development and economic transition of India giving a brief survey of economic policies during the last 200 years are also included in this section.

Part II of the book relates to the problems of planning. The rationale and philosophical basis of Indian planning, the growth of industrial policy and the growing role of the public sector in Indian economy which provide the ideological background to Indian planning are discussed in the first three chapters of this section. They are followed by a review of fifteen years of planning, the considerations in the formulation of the Fourth Plan and the pattern of financing the plans. Besides, the role of external assistance in Indian economic development, the significance of price policy in a developing economy like India and the need for mobilising and augmenting the marketable surplus which are the key factors to be operated upon by the planning authority in view of the needs of economic development, are also discussed. The purpose of this section is to present a comprehensive view of the problems of Indian planning, the lessons to be drawn from our experience of planning as also to know the operation of controls and gears in Indian economic system.

After making this survey of the Indian economy at the macro-level, Parts III, IV and VI are devoted to the study of Agricultural Sector, the Industrial Sector and the Tertiary Sector of the Indian economy. Part V is concerned with the problems of Indian labour.

In Part III, entitled "Agriculture in the National Economy", the principal topics discussed are: the productivity trends, land use and crop pattern, agricultural inputs and methods and the role of land reforms in raising agricultural productivity and providing social justice. Besides these, are included the problems of organisation of rural credit, marketing and warehousing and the role of co-operation, community development and panchayati raj in the rural India. The last two sections of this part deal with the food problem and the impact of Five Year Plans on agricultural development.

Part IV of the book entitled "Indian Industries" unfolds industrial pattern that was inherited by national government and the influence of the Five Year Plans in shaping the industrial pattern to suit the needs of a progressive economy. This is followed by a discussion of some large-scale enterprises, small-scale enterprises, the problems of industrial finance and management.

Part V pertains to Indian labour. The problem of unemployment, surplus labour and skill formation provides us a broad view of the occupational distribution of Indian labour and the extent of maladjustment in its demand and supply in different sectors. It is followed by the problems of industrial labour and its organisation, agricultural labour and labour policy.

Part VI entitled "The Tertiary Sector in the Indian Economy" deals with the problems of transport and communications, the foreign trade of India and its balance of payments position, the growth of Indian fiscal policy, the history of Indian currency, the role of commercial banks and the influence of the Reserve Bank of India in developing an organised money market in India. A brief survey of the problems of Indian public finance is given at the end.

While preparing this book, we have tried to collect the latest information available from government publications, published and unpublished sources, journals and articles by eminent economists. We are indebted to all our friends who gave us suggestions in the preparation of the manuscript. Our thanks are especially due to Mr. B.S. Maskin, Dr. D.P. Chaudhri and Dr. Dalip Swamy who helped us a good deal at various stages of the preparation of this book. We request our colleagues in the teaching profession, research scholars and all others who are interested in the study of Indian economic problems to send their suggestions and criticism for the improvement of the book.

Delhi — **RUDDAR DATT**

1st November, 1965 — **K. P. M. SUNDHARAM**

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PART I

STRUCTURE OF THE INDIAN ECONOMY

- **India as a Developing Economy**
- **Economic Transition in India**
- **National Income of India**
- **Human Resources and Economic Development**
- **Human Development in India**
- **Occupational Structure and Economic Development**
- **Natural Resources and Economic Development and Environmental Degradation**
- **Infrastructure in the Indian Economy**

THE ECONOMIC FORCES AND SOCIETY

"There (runs) an economic struggle through every religious struggle. This animal called man has some religious influence, but he is guided by economy. You may preach a religion that may not be perfect in every detail, but if there is an economic background, and you have the most ardent champions to preach it, you can convince a whole country........"

"Man is guided by the stomach. He walks and the stomach goes first and the head afterwards. Have you not seen that? It will take ages for the head to go first".

—Swami Vivekananda

SELECTED INDICATORS OF THE INDIAN ECONOMY

		1950-51	1970-71	1990-91	2000-01	2012-13	2013-14
1.	GDP at factor cost (₹ crores) at 1999-00 prices	2,23,899	4,70,254	10,67,694	18,41,755	54,82,111[+1R]	91,69,787[@]
2.	Per capita NNP at factor cost (per catpita National Income ₹ at 1999-00 prices)	5,708	8,091	11,535	16,172	38,856[+1R]	69,959[@]
3.	Index of Industrial production (Base 1993-94)	7.9	28.1	9.16	162.6	172.2[+]	172.0
4.	Index of Agricultural Production (Base : 3 Year ending 1981-82)	46.2	85.9	148.4	165.7	124.2[+++]	129.2
5.	Gross domestic capital formation at current market prices (as per cent of GDP)	8.7	15.4	26.3	24.0	34.8	32.3[@]
6.	Gross domestic saving (as per cent of GDP)	8.9	14.6	23.1	23.4	30.1	30.6[@]
7.	Foodgrains (Million tonnes)	50.8	108.4	176.4	196.8	257	265
8.	Finished Steel (Million tonnes)	1.04	4.64	13.53	30.3	82.8[@]	87.7
9.	Cement (Million tonnes)	2.7	14.3	48.8	97.6	230.5[@]	300
10.	Coal & Lignite (Million tonnes)	32.3	76.3	225.5	332.6	603	610
11.	Crude Oil (Million tonnes)	0.3	6.8	33.0	32.4	38.2[@]	37.8
12.	Electricity generated (Utilities only) (Billion KWH)	5.1	55.8	264.3	499.5	907[@]	1166
13.	Wholesale price index (Base 1993-94)	6.8	14.3	73.7	155.7	170.1[+]	177.6[+]
14.	Consumer price index (Base 1982)	17	38	193	444	215[+]	239[++]
15.	Foreign exchange reserves (US $ million)	1,914	584	2,236	39,554	292.0	304.2
16.	Exports (₹ crores)	606	1,535	32,553	203,571	16,67,690	19,31,074
17.	Imports (₹ crores)	608	1,634	43,198	230,873	27,32,146	28,15,918
18.	Population (Millions)	361.1	548.2	846.3	1,019	1250	1270
19.	Birth rate (per 1000)	39.9	36.9	29.5	25.4	17.6*	17.6*
20.	Death rate (per 1000)	27.4	14.9	9.8	8.4	7.1*	7.1*
21.	Life expectancy at birth (in years)	32.1	45.6	58.7	62.5	68.5*	68.5*
	a. Male	32.4	46.4	59.0	61.6	67.3*	67.3*
	b. Female	31.7	44.7	58.7	63.3	69.6*	69.6*
22.	Literacy rate (per cent)	18.3	34.5	52.2	64.8	74.0*	74.0*
	a. Male (per cent)	27.2	46.0	64.1	75.3	82.14*	82.14*
	b. Female (per cent)	8.9	22.0	39.3	53.7	65.5*	65.5*
23.	Registered Medical Practitioners (RMP) (000)	61.8	151.1		575.6	922.2**	922.2**
24.	RMP (per 10,000 population)	1.7	2.8	4.7	5.6	7.6	7.6**
25.	Beds all types per 10,000	3.2	6.4	9.5	9.5	n.a	n.a

IW CPI IW (Base 2000-01)
+ Base Year 2004-05
++ Base 2001
+++ Base 2007-08
* Census 2011
** 2010-11
@ New Series Estimaties (Base 2011-12)

1R : Ist Revised Estimates
2R : 2nd Revised Estimates
@ : for 2011-2012
IW : Consumer Price Index Industrial workers (Base 2000-01)
na : Not available

Source : Government of India, *Economic Survey* (2014-2015),
CSO, Ministry of Statistics and Programme Implacementation

CHAPTER

1

INDIA AS A DEVELOPING ECONOMY

An underdeveloped economy is characterised, by the existence, in greater or less degree, of unutilised or underutilised manpower on the one hand and of unexploited natural resources on the other. This state of affairs may be due to stagnancy of techniques or to certain inhibiting socio-economic factors which prevent the more dynamic forces in economy from asserting themselves.

– The First Five-Year Plan

1. MEANING OF AN UNDERDEVELOPED ECONOMY

There is no doubt that the distinction between underdeveloped and developed countries is rather loose and also arbitrary to a certain extent. The United Nations group of experts states, "We have had some difficulty in interpreting the term 'underdeveloped countries'. We use it to mean countries in which per capita real income is low when compared with the per capita real incomes of the United States of America, Canada, Australia and Western Europe. In this sense, an adequate synonym would be poor countries".[1]

U.N. Classification

The term 'underdeveloped countries' is relative. In general, those countries which have real per capita incomes less than a quarter of the per capita income of the United States, are underdeveloped countries. More recently, instead of referring to these economies as underdeveloped, the UN publications prefer to describe them as 'developing economies'. The term 'developing economies' signifies that though still underdeveloped, the process of development has been initiated in these countries. Thus, we have 'developing economies' and 'developed economies'.

The World Bank in its ***World Development Report*** (2012) classified the various countries on the basis of Gross National Income (GNI) per capita. (Table 1 on p. 4.)

Developing countries are divided into: (a) ***Low income countries*** with 2011 GNI per capita of $ 936 and below; and ***Middle income countries*** with GNI per capita ranging between $ 936 and $ 11,455. As against them, the ***High-income Countries*** which are mostly members of the Organisation for Economic Co-operation and Development (OECD) and some others have GNI per capita of $ 11,456 or more.

Two sub-categories of middle income countries are lower-middle income with per capita income in the range of $ 936 to $ 3,705 and upper middle income countries with per capita income $ 3,706 to $ 11,455.

From the data given in Table 1, it may be noted that in 2014 low income countries comprise 8.6 per cent of the world population (622 million), but account for only 0.5 per cent of total world GNI. The middle income countries, which are less developed than the highly developed countries, but comparatively speaking, more developed than the low income

1. United Nations, ***Measures for the Economic Development of Underdeveloped Countries***, 1951, p. 3.

Table 1: Distribution of World Population and World GNI among Various Groups of Countries (2014)

Country/Group	*Population*		*GNI Exchange Rate Basis*		*GNI PPP Basis*		*Per Capita GNI*	
	Million	*%*	*Billion US $*	*%*	*Billion US $*	*%*	*Exchange Rate basis $*	*PPP basis US $*
1. Low Income	622	8.6	389	0.5	976	0.9	626	1,570
2. Middle Income	5,240	72.2	24,382	31.2	50,573	46.7	4,653	9,652
(a) Lower Middle Income	2,879	39.7	5,793	7.4	17,268	15.9	2,012	5,998
(b) Upper Middle Income	2,361	32.5	18,586	23.7	33,403	30.8	7,873	14,149
3. High Income	1,399	19.3	53,597	68.5	57,082	52.7	38,317	40,762
4. World	**7,261**	**100.0**	**78,260**	**100.0**	**1,08,347**	**100.0**	**10,779**	**14,923**
China	**1,364**	**18.8**	**10,069**	**12.9**	**17,919**	–	**7,380**	**13,130**
India	**1,295**	**17.8**	**2,036**	**2.6**	**7,302**	–	**1,570**	**5,640**

World Total GNI figures do not add upto the various components. GNI is the same as GNP (Gross National Product) used earlier by World Bank.
Source: World Bank (2015), *World Development Report (2015).*

countries comprise 72.2 per cent of world population but account for 31.2 per cent of world GNI. Taking these two groups which are popularly described as developing economies, it may be stated that they comprise about 80.8 per cent of the world population but account for about 31.7 per cent of the world GNI. Most countries of Asia, Africa, Latin America and some countries of Europe are included in them.

As against them, High Income economies which comprise only about 19.3 per cent of world population account for 68.5 per cent of world GNI. In other words, bulk of the poor people reside in the low income and middle income developing countries. They, to quote A.K. Cairncross, constitute the slums of the world economy.

India with its population of 1295 million in 2014 and with its per capita income of 1570 is among the lower middle income economies of the world. It had a share of 17.8 per cent in world population, but accounts for only 2.6 per cent of World GNI on exchange rate basis.

The figures quoted above are on exchange rate basis. The use of official exchange rates to convert national currency figures to the US dollars does not attempt to measure the relative domestic purchasing power of currencies. Following the Work I.B. Kravis and others International Comparisons of Real Product and Purchasing Power (1978), the United Nations International Comparison Program (ICP) has developed measures of real GDP and GNP (or GNI) on an internationally comparable scale using purchasing power parities (PPPs) instead of exchange rates as conversion factors.

Table 1 provides data on exchange rate as well as PPP basis. Using PPP basis, low income countries comprising about 8.6 per cent of population accounted for about 0.9 per cent of world income; middle income countries with 72.2 per cent of world population accounted for about 46.7 per cent of world income and the high income countries with about 19.3 per cent of world population accounted for about 52.7 per cent of world income: Obviously, glaring differences between these three groups of countries on exchange rate basis get moderated with PPP basis and the situation does not appear to be so gloomy. Even on PPP basis, India with a per capita GNI of $ 5,640 continues to be in the group of lower middle income economies, but with an acceleration in its growth rate of GDP to an average of 8.0 per cent during 2000 and 2014, India may soon enter the group of upper middle income countries. China, however, has entered the upper middle income group.

Table 2: Growth Rates of per capita GNI among different groups of Economies

	2010-2014	*2010*	*2014*
Low Income	**4.3**	**529**	**626**
Middle Income	**5.7**	**3,726**	**4,653**
(a) Lower middle income	5.5	1,622	2,012
(b) Upper middle income	7.4	5,886	7,873
High Income	**–0.5**	**38,745**	**38,317**
China	**11.2**	**4,270**	**6,560**
India	**5.3**	**1,270**	**1,570**

Source: World Bank, *World Development Indicators (2015)*

Three observations may be made here regarding the UN classification of development and developing countries on the basis of per capita income. First, there is gross inequality of incomes between the rich and the poor countries. Second, after 1990 the rates of growth of per capita GDP in low income economies were higher than those in high income economies. As a natural consequence, the sustained increase of GDP in low income economies has reduced the gap between low income and high income economies. However in the recent years, growth

in per capita GDP in low income countries has slowed down. Growth in upper middle income countries has picked up, while high income countries show nearly zero growth in per capita GDP. China provides an illustration which is unique in the sense, that its growth rate of GDP during 1990-2000 averaged 10.6 per cent and during 2000-2005 averaged 9.6 per cent. India also shows a high growth rate of 6.0 per cent during 1990-2000 and 8.0 per cent during 2000-09. This implies that the two Asian giants are marching forward on the road to development at a higher rate than the high income countries. China has already entered the upper middle income group and India will follow soon if the GDP growth rate remains above 8 per cent. It does not seem to be an impossible task, as it had reached a level of 9 per cent between 2000 and 2008. More recently, the growth rate among low-income countries has also shown an increase and if this is sustained, the gap may show a decline over a period. Third, all the high income countries are not necessarily developed countries. For instance, the oil-exporting countries have high per capita income but this is mainly due to their exports of oil; really speaking, they are not developed economies.

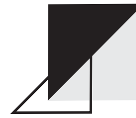
From Table 2 we observe that in the recent years between 2010 and 2014 growth in per capita GNI has slowed in low income and lower middle income countries. High income countries have continued with near zero growth rate in per capita GNI. Upper middle incomes countries show a high growth rate of 7.4 per cent in per capita GNI.

(a) Developing economies are distinguished from the developed economies on the basis of their low per capita income. Though per capita income is not the only indicator, it is the most significant single measure of comparison for different economies.

(b) The central problem of developing economies is the prevalence of 'mass poverty' which is the cause as well as consequence of their low level of development.

(c) 'Mass poverty' is the result of low resource base of the poor who own a very small portion of the total assets in the form of land, capital, house property, etc. The low resource base of the poor also inhibits them from giving education and training to their children. As a result, the children of the poor are, by and large, either engaged in unskilled occupations or some semi-skilled occupations. This enables them to earn very low and meagre wages and thus perpetuate poverty. In other words, inequality in the distribution of assets is the principal cause of unequal distribution of income on the one hand and unequal distribution of opportunities on the other.

(d) Mass poverty in developing economics is not due to poor natural resources, but due to inadequate development of these resources and exploitative social structure.



2. BASIC CHARACTERISTICS OF THE INDIAN ECONOMY AS A DEVELOPING ECONOMY

India is a low income developing economy. There is no doubt that nearly one-fourth of its population lives in conditions of misery. Poverty is not only acute but is also a chronic malady in India. At the same time, there exist unutilised natural resources. It is, therefore, quite important to understand the basic characteristics of the Indian economy, treating it as one of the poor but developing economies of the world.

(1) *Low Per Capita Income.* Developing economies are marked by the existence of low per capita income. The per capita income of an Indian in 2014 was $ 1570. Barring a few countries, the per capita income of the Indian people is the lowest in the world. During 1960-80, developed economies grew at a faster rate than the Indian economy, but during 1990-2014, Indian economy has grown at a faster rate than the developed economies. Even then the difference in per capita income between India and the developed economies is quite large. (Refer Table 3).

TABLE 3: Per Capita GNI at Market Prices

(In US Dollars)

	2014	
	Exchange Rate Basis	*Purchasing Power Parity Basis*
Switzerland	90,670	59,600
U.S.A.	55,200	55,860
Japan	42,000	37,920
Germany	47,640	46,840
U.K.	42,690	38,370
India	1,570	5,640
China	7,380	13,130

SOURCE: The world Bank, *World Development Indicators,* (2015).

It may be noted that in 2014 the average per capita GNI of USA at official exchange rates was 35 times that of India, while at the purchasing power parity rates, it was 10 times only. In other words, per capita income at official exchange rates exaggerated the disparities, while the purchasing power parity figures corrected the position. Even after this adjustment, though the per capita income differences got narrowed down, still the difference between the level of living of the an average American and an Indian was quite large and significant.

(2) *Occupational Pattern: Primary Producing.* One of the basic characteristics of an underdeveloped

economy is that it is primary producing. A very high proportion of working population is engaged in agriculture, which contributes a very large share in the national income. In India, in 2014, about 47 per cent of the working population was engaged in agriculture and its contribution to national income was 17 per cent, according to data published by World Bank. In Asia, Africa and Middle East countries from two-thirds to more than four-fifths of the population earn their livelihood from agriculture, and in most Latin American countries from two-thirds to three-fourths of population are dependent on agriculture. From Table 4 it is evident that the proportion of population engaged in agriculture in developed countries is much less than the proportion of population engaged in agriculture in underdeveloped countries.

TABLE 4: Percentage of Active Population Engaged in Agriculture and Industrial Origin of GDP in 2014

Country	*Employment in Agriculture (% of total employment)@*	*Industrial origin of GDP Percentage Distribution*		
		Agri.	*Industry*	*Services*
U.K.	1.0	0.6	19.8	79.6
U.S.A.	1.6*	1.4**	20.5**	78.0**
Japan	3.7*	1.2**	26.2**	72.6**
Thailand	39	11.6	42.1	46.3
Pakistan	45	25.1	21.3	53.6
China	35	9.2	42.6	48.2
India	47	17.0	30.0	53.0

SOURCE: World Bank, ***World Development Indicators,*** 2015. * 2010 ** 2013 @ 2011.

From the point of view of occupational pattern, the Indian economy is primary producing because agriculture contributes 17 per cent of national income while 47 per cent of the labour force is engaged in agriculture. Yet one cannot easily escape the conclusion that agriculture continues to be a depressed industry as the productivity per person engaged in it is very low.

(3) ***Heavy Population Pressure.*** The main problem in India is the high level of birth rates coupled with a falling level of death rates. The rate of growth of population which was about 1.31 per cent per annum during 1941-50 has risen to 1.93 per cent during 1991-2001. The annual average rate of growth of population during 2001-11 has further declined to 1.64 percent. The chief cause of this rapid spurt to population growth is the steep fall in death rate from 49 per thousand during 1911-20 to 7.4 per thousand in 2008 as compared to this, the birth rate has declined from about 49 per thousand during 1911-20 to 22.1 per thousand in 2010.

The fast rate of growth of population necessitates a higher rate of economic growth in order to maintain the same standard of living of the population. To maintain a rapidly growing population, the requirements of food, clothing, shelter, medicine, schooling, etc. all rise. Thus, a rising population imposes greater economic burdens and, consequently, society has to make a much greater effort to initiate the process of growth. Moreover, a rising population leads to an increase in the labour force. According to the Tenth Plan, between 2002 and 2007 alone, labour force is expected to increase by about 35 million i.e., at an annual average rate of 1.8 per cent. This rapid growth of labour force creates a higher supply of labour than its demand leading to unemployment.

(4) ***Prevalence of Chronic Unemployment and Underemployment.*** In India labour is an abundant factor and, consequently, it is very difficult to provide gainful employment to the entire working population. In developed countries, unemployment is of a cyclical nature and occurs due to lack of effective demand. In India unemployment is structural and is the result of a deficiency of capital. The Indian economy does not find sufficient capital to expand its industries to such an extent that the entire labour force is absorbed.

Moreover, in the agricultural sector of the Indian economy, a much larger number of labourers are engaged in production than are really needed. Accordingly, the marginal product of labour in agriculture is often negligible; it may be zero or may even be negative. Thus, there exists 'disguised' or 'concealed' unemployment in agriculture. Even if the surplus population is siphoned off, the total output from agriculture will not fall because those persons who were working below capacity, begin to be utilised to the full. Disguised unemployment in rural areas is the result of heavy pressure of population on land and the absence of alternative employment opportunities in our villages.

Though there is no doubt that unemployment exists in a greater degree in the urban areas, the rural areas too suffer from the problem of unemployment and underemployment. On this point the Third Five-Year Plan stated : "In the rural areas both unemployment and underemployment exist side by side; the distinction between them is by no means sharp. In the villages unemployment ordinarily takes the form of underemployment. Urban and rural unemployment in fact constitute an indivisible problem."[2] The Planning Commission on the basis of the NSS data has estimated that during 2004-05, the rate of unemployment has risen to 8.36% as against 7.32% in 1999-00. The Eleventh Plan (2007-12) will have a backlog of 37 million unemployed. The revised estimates of the Planning Commission reveal that 45 million are likely to be the new entrants to the labour force during the Eleventh Plan. Thus, the total job requirements of the 11th Plan workout to be 82 million (37 million backlog ***plus*** 45 million new entrants) Thus, the provision of

2. ***Planning Commission, Third Five-Year Plan***, p. 154.

employment to those suffering from open unemployment and under-employment becomes a major task of the planning process in India.

(5) *Steadily Improving Rate of Capital Formation*. During the fifties and the sixties of the 20th century, basic characteristic of the Indian economy was the existence of capital deficiency which is reflected in two ways—firstly, the amount of capital per head available was low; and secondly, the rate of capital formation was also low. An important indicator of low capital per head available in underdeveloped countries is the consumption of energy. Figures given in Table 5 clearly indicate that per capita consumption of energy in India is extremely low as compared to the advanced countries.

TABLE 5: Energy Use (Kilogram Oil Equivalent)

	Energy use (Kg of oil equivalent Per capita) (2013)
U.S.A.	6,909
U.K.	2,967
Japan	3,560
China	2,143*
India	624*

SOURCE: *World Development Indicators (2015).* ***2012**

Table 6 reveals that rate of gross capital formation in India is higher than that of developed countries. Professor Colin Clark has estimated that in order to maintain the same level of living a country requires an additional investment of 4 per cent per annum, if its population increases at the rate of 1 per cent per annum. In a country like India where the rate of population growth is 1.6 per cent (during 2000-05), about 6.4 per cent investment is needed to offset the additional burdens imposed by a rising population. Thus, India requires as high as 14 per cent level of gross capital formation so that she may cover depreciation and maintain the same level of living. A higher rate of gross capital formation alone can pave the way for economic growth to improve living standard of the population. It is gratifying to note that India had reached a saving rate of 22 per cent in 2003 which is sufficiently high. More recently, Gross Domestic Saving in 2014 has reached a high level of 29.0 per cent and Gross capital formation was high at 31.4 per cent. This is a welcome development.

TABLE 6: Gross Capital Formation and Gross Domestic Saving as per cent of Gross Domestic Product

Country	*Gross Capital Formation*		*Gross Domestic Saving*	
	1990	*2014*	*1990*	*2014*
U.S.A.	18	19.3*	16	16.3*
UK	20	17.7	18	15.9
Japan	33	21.1*	34	18.3*
Germany	24	19.0	24	25.4
China	35	47.7*	38	50.4*
India	24	31.4	23	29.0

Source: World Bank, ***World Development Indicators*,** 2015.
* 2013

(6) *Maldistribution of Wealth/Assets* - RBI Survey of assets of rural and urban households for the period July 1991 to June 1992 brings out the existence of sharp inequalities in asset distribution. In rural areas 27 per cent of households owning less than ₹ 20,000 worth of assets accounted for 2.4 per cent of total assets. Similarly, about 24 per cent of households in the asset range of ₹ 20,000 - 50,000 owned barely 7.5 per cent of total assets. This implies that nearly 51 per cent of the bottom households owned just 10 per cent of the total assets. As against it, 9.6 per cent of the rich households owning assets worth ₹ 2.5 lakhs and above accounted for nearly 49 per cent of total assets.

TABLE 7: Percentage Distribution of Households and Assets in India (1991-92)

Asset Group	*Rural (%)*		*Urban (%)*	
	Households	*Assets*	*Households*	*Assets*
Less than ₹ 20,000	27.0	2.4	33.5	1.4
₹ 20,000 - 50,000	23.8	7.5	17.2	3.9
₹ 50,000 - 1,00,000	20.9	14.0	16.0	8.0
₹ 1,00,000 - 2,50,000	18.8	27.3	19.0	20.8
₹ 2,50,000 & above	9.6	48.8	14.2	65.8
All Classes	**100.0**	**100.0**	**100.0**	**100.0**

Source: Reserve Bank of India, All-India Debt and Investment Survey, 1991-92, ***RBI Bulletin, May*** *1999*.

However, the situation in urban areas was much worse. 50.7 per cent of the urban households owning less than ₹ 50,000 worth of assets accounted for barely 5.3 per cent of total assets. As against them, nearly 66 per cent of the total assets of all urban households were held by 14.2 per cent of the households, each owning ₹ 2.5 lakhs of above. This implies that urban households indicated much worse asset distribution than rural households.

Inequality in asset distribution is the principal cause of unequal distribution of income in the rural areas. It also signifies that the resource base of 50 per cent of the households is so weak that it can hardly provide them anything above the subsistence level of income. This finding of the Reserve Bank is also supported by the National Sample Survey which reveals that 60 per cent of the poor rural households owned only 9.3 per cent of area operated, they had

only 14 per cent of cattle heads and just 10 per cent of wooden ploughs.

(7) *Poor Quality of Human Capital.* A glaring feature of an underdeveloped economy is the poor quality of human capital. Most of the underdeveloped countries suffer from mass illiteracy. Illiteracy retards growth. A minimum level of education is necessary to acquire skills as also to comprehend social problems. Rural areas where illiteracy is a rule, are the back-waters of civilization and the centres of superstition, social taboos and conservatism. Fatalism and acceptance of misery as a part of life and belief in a pre-destined order are all accompanied by mass illiteracy.

But if we enlarge the definition of capital formation to include the use of any resource that enhances productive capacity, then besides physical capital the knowledge and training of the population will also form a part of capital. As a result, the expenditure on education, skill formation, research and improvements in health are included in human capital. The Indian public expenditure on primary to higher education and research and development in 2002–04 was a 3.3 per cent of GDP. The corresponding figure for the USA. was 5.9 per cent of GDP. Public expenditure on health in India was miserably low at 1.1% of GDP in 2007.

Under the United Nations Development Programme (UNDP), countries have been ranked on the basis of Human Development Index (HDI). This index is based on life expectancy, adult literacy, combined enrolment ratio – first, second and third level and real GDP per capita (Purchasing Power Parity basis) in US Dollars . It is very distressing to note that India has been ranked at No. 136 on the basis of HDI in 2012 while China stands at No. 101. Obviously, India has still to go a long way before it reaches the levels of developed countries in terms of human devleopment index.

(8) *Prevalence of Low Level of Technology.* In a developing economy like India, the most modern technique exists side by side with the most primitive in the same industry, but there is no gainsaying the fact that the majority of the productive units and a major part of the output is produced with the help of techniques which can be described as inferior judged by modern scientific standards. The sharp differences in productivity between developed and underdeveloped nations can be traced to a considerable degree to the application of superior techniques by the former.

Since new techniques are expensive and require a considerable degree of skill for their application in production, the twin requirements for the absorption of new technology are the availability of capital and training of an adequate number of personnel. It is necessary to have a basic minimum level of education among the actual producers in order that the economy can absorb new technology. Deficiency of capital hinders the process of scrapping off the old techniques and the installation of the up-to-date and modern techniques. Illiteracy and the absence of a skilled labour force are the other major hurdles in the spread of technology in the economy.

The Indian economy suffers from this basic weakness. The low productivity per hectare in Indian agriculture and the low level of productivity per worker in agriculture and industry are largely a consequence of technological backwardness. In India, the vast majority of farmers are too poor to buy even the essential inputs, such as improved seeds, fertilisers and insecticides, not to speak of affording the more expensive producers' goods like harvesters, tractors, sowing machines, etc. In manufacture also, the vast majority of the enterprises in India are run either on an individual or on a partnership basis; and it is beyond the means of small enterprises to employ modern and more productive techniques. However, with the liberalisation of the economy, new technology is being adopted by a large number of enterprises for their survival.

(9) *Low Level of Living of the Average Indian.* Failure to secure a balanced diet manifests in India in the low calorie intake and low level of consumption of protein. In 1999 the average calorie intake of food is only 2,496 as compared to over 3,400 calories per day in most of the developed countries. This is, slightly above the minimum intake for sustaining life estimated at 2,100 calories. Since nearly 28 per cent

TABLE 8: Human Development Index (2012)

Country	*Life Expectance of Birth(2012)*	*Adult Literacy (%) (2005-10)*	*Gross Enrollment Ratio (%) Primary (2002-11)*	*Secondary (2002-11)*	*Tertiary (2002-11)*	*GDP Per Capita (2005 PPP US$)*	*Human Development Index 2012*
Canada	**81.1**	**99.0**	**99.0**	**101.0**	**60.0**	**35,716**	**11**
USA	**78.7**	**99.0**	**102.0**	**96.0**	**94.8**	**42,486**	**3**
Japan	**83.6**	**99.0**	**103.0**	**102.0**	**59.0**	**30,660**	**10**
France	**81.7**	**99.0**	**111.0**	**113.0**	**54.5**	**29,819**	**20**
UK	**80.3**	**99.0**	**106.0**	**102.0**	**58.5**	**32,474**	**26**
China	73.7	94.3	111.0	81.0	25.9	7,418	101
India	65.8	62.8	118.0	60.0	16.2	3,203	136

Source: UNDP, *Human Development Report 2013.*

of the population in India lived below the poverty line in 2004-05, it is very doubtful whether the poor get a minimum intake of even 2,100 calories. Another factor that has an important bearing on the health of the people is that in India cereals predominate, but in contrast the diet in the advanced countries is rich in content because it includes fruits, fish, meat, butter and sugar. The protein intake is nearly less than half of the level prevalent in advanced countries.

According to World Development Indicators, 46 per cent of the child population in India suffers from malnutrition. The average protein content of the Indian diet is only 59 grams per day as against more than double the level in developed countries. The per capita availability of milk which was 48 kgs. in 1960 has gone up to 83 kgs. in 2003-04, though it is still much lower than that in developed countries per annum. Nearly 60 per cent of the mothers are malnourished. According to the census of 2001, only 36 per cent of the households had access to safe drinking water, implying tap water. This results in developing less strength to fight diseases and is also partly responsible for the low level of efficiency of the Indian workers.

The picture regarding housing is equally bleak. According to the Census of India (2001), only about 52 per cent of the households were living in permanent houses, about 30 per cent were living in semi-permanent houses and 18 per cent were living in temporary houses. The condition in the rural areas was much worse where only 41 per cent of the population lived in permanent houses and 59 per cent lived in semi-permanent or temporary houses. Comparatively, the situation in urban areas was much better where 79 per cent households resided in permanent houses, 15 per cent in semi-permanent and only 5 per cent in temporary houses.

TABLE 9: Distribution of Households by Type of Houses (2001)

(In million)

	Total	*Rural*	*Urban*
1. Permanent	99.4 (51.8)	56.8 (41.1)	42.6 (79.3)
2. Semi-permanent	57.7 (30.0)	49.4 (35.7)	8.3 (15.4)
3. Temporary	34.9 (18.1)	32.1 (23.2)	2.8 (5.2)
Total	**192.0 (100.0)**	**138.3 (100.0)**	**53.7 (100.0)**

Notes: Figures in brackets are percentages of total houses in respective column.
Permanent houses are those whose walls and roof are made of permanent materials like galvanized iron sheets, burnt bricks, tiles, slates, stones or concrete.
Semi-permanent houses in which either the wall or the roof may be made of permanent material and the other of temporary material.
Temporary houses in which both walls and roof are made of materials, which have to be replaced frequently. These materials include grass, thatch, bamboo, plastic, polythene, mud, unburnt bricks or wood.

SOURCE: Compiled and computed from Census of India (2001), ***Tables on Households, Household Amenities and Assets***.

It is implies that 92 million houses need upgradation—81 million in the rural areas and 11 million in the urban areas.

The Working Group on Housing for the Tenth Plan has observed that around 90 per cent of the housing shortage pertains to weaker sections. The Government should, therefore, come in a big way to make a programme for housing for the weaker sections. 34.8 million households occupying temporary houses almost entirely belong to the weaker sections of the society who require urgent attention by the Government.

The Working Group of the Tenth Plan on Housing has estimated a shortage of 22.44 million houses during the Tenth Plan period, out of which 8.89 million is the shortage of urban housing and 13.55 million of rural housing. This appears to be an under-estimate if we consider 34.8 million temporary houses, especially 12.7 million temporary unserviceable houses to be built a fresh.

Another very revealing feature of the Census (2001) is that 34.5 per cent of household did not own any of the specified assets, i.e., radio, transistor, television, telephone, bicycle, scooter, motor cycle or moped.

(10) *Demographic Characteristics of an Underdeveloped Country.* Among the demographic characteristics associated with underdevelopment are high density of population. Besides this, the average expectation of life is low and infant mortality rates are high. It would be proper to examine these characteristics.

The density of population in India in 2006 was 373 per sq. km. As compared with this the average density of population in the world is 50 per sq. km. in 2005. However, in U.S.A., the density of population is 33, in Canada and Australia, it is barely 3-4 per sq. km. Even in China, density is 141 per sq. km. Obviously, a higher density imposes greater burdens on land and other natural resources.

According to 2001 census, 33.5 per cent of the total population is in the age group 0-14, 61.5 per cent is in the working age group, i.e., 15-64 and only 5.0 per cent in the age group 65 and above. In other words, the proportion of children is higher in India than in the advanced countries. Obviously, this situation

increases the dependency load, because the proportion and size of the non-productive population is higher. Such a situation persists during a period of high population growth rate but will alter in favour of productive population as the rate of population growth slows down. The existence of a greater proportion of the population in the lower age group acts against production, but favours a higher level of consumption. The higher dependency load of the population is a typical characteristic of underdevelopment.

However, demographic change is taking place in India. The percentage of children (Below 15 years) which was 35.5% of in 2001 has declined to 32.1% in 2006 and is likely to decline further to 23.3% by 2026. Consequently, the population in the working age group (15 to 64 years) is expected to increase from about 63% in 2006 to 68.4% by 2026. Demographers expect a decline in the dependency load of the population. As a consequence of the likely increase in the working age group, India will experience a demographic dividend during the next three decade. The major problem for India is to harness the growing working age population in emerging areas of the economy, both in industry and services. This will require the development of new skills among the youth to enable them to take part in occupations requiring better skills and training. The is referred to as the challenge of demographic dividend facing the Indian economy.

(11) ***The Socioeconomic Indicators of Consumption are Characteristic of Underdeveloped Economy in India.*** Underdevelopment also finds expression through several socioeconomic indicators, such as per capita intake of calories, fats and proteins, population per TV set and physician. In Table 10, figures for a few selected countries indicate that India is far behind the developed countries so far as these indicators of standard of living are concerned. Illiteracy rate is also very high in India—35% in 2001, as against less than 5 per cent in developed countries.

TABLE 10: Socioeconomic Indicators of Standard of Living (1999)

Country	*Per capita daily intake*			*Per 1000 persons*	
	Fats (gms)	*Protein (gms)*	*Calories*	*TV Sets*	*Physician (1998)*
India	45	59	2,496	69	0.4
China	71	77	2,897	272	2.0
Japan	83	96	2,932	707	7.3
USA	143	112	3,699	847	2.5
UK	141	93	3,276	645	1.5

SOURCE: Tata Services Ltd., ***Statistical Outline of India,*** (1999-2000).

As a developing economy, during the last over five decades of development, India has been able to improve its GDP growth rate which was only 3.5 per cent during 1950-51 to 1970-71 to a level of nearly 7 per cent during 2000-01 to 2004-05. It has been able to reduce poverty from a level of about 54 per cent in 1960-61 to a level of 26 per cent in 1999-00. It has been able to improve literacy from a level of 17 per cent in 1951 to about 65 per cent in 2001. It has been able to raise the rate of capital formation from about 10 per cent of GDP in 1960-61 to 30 per cent in 2004-05. Its life expectancy has improved from 32 years in 1951 to 63.3 years in 2003. However, there are glaring failures on many fronts. According to Human Development Report (2005), India ranks at No. 127 in the world. Its record in terms of removing malnutrition is poor, as 46 per cent of the child population suffers from it. According to 2001 census, only 52 per cent of the population has permanent houses and only 36 per cent population has access to safe drinking water. Although poverty has been reduced to a level of 26 per cent, but still 260 million persons are still poor and the burden of poverty is quite massive. The rate of unemployment at a level of 9.2 per cent in 2001-02 is very high. To sum up, Indian economy has made commendable progress on many fronts, but it has miles to go to remove poverty, malnutrition and providing shelter and drinking water to its entire population.

3. MAJOR ISSUES OF DEVELOPMENT

India is an underdeveloped though a developing economy. Bulk of the population lives in conditions of misery. Poverty is not only acute but also chronic. At the same time, there exist unutilised natural resources. The co-existence of the vicious circle of poverty with the vicious circle of affluence perpetuates misery and foils all attempts at removal of poverty. It is in this context that an understanding of the major issues of development should be made. The following are the major development issues in India.

(1) ***Low Per Capita Income and Low Rate of Economic Growth:*** Barring a few countries in the world, the per capita income of the Indian people is the lowest in the world. During 1990-2005, Indian economy has growth at the rate of over 6% per annum in GDP. This is helping India to reduce the gap of per capita GDP with developed countries.

(2) ***High Proportion of People Below the Poverty Line*****:** A major development issue is the removal of mass poverty. Indian economy indicates a very high proportion of people below the poverty line. Dandekar and Rath showed that 40 per cent of rural population and 50 per cent of the urban population lived below the poverty line in 1967-68. Taken together 215 million persons constituted the

poor, accounting for 41 per cent of the total population in 1967-68. Defining poverty line on the basis of norms of nutritional requirements, i.e., 2,400 calories per person per day for the rural areas and 2,100 calories for the urban areas, the Sixth Plan (1980-85) estimated the total number of persons living below the poverty line as 317 million for 1979-80, that is, 48 per cent of the total population. According to the Planning Commission, in 2004-05 nearly 302 million people (27.5 per cent of total population) were living below the poverty line—221 million in rural areas and 81 million in urban areas. The burden of poverty is very massive. Rapid reduction and eventually the elimination of poverty is, therefore, the most important issue of development.

(3) ***Low Level of Productive Efficiency due to Inadequate Nutrition and Malnutrition*****:** Nutrition influences economic development via raising the level of productivity, efficiency and intelligence of the community. The National Sample Survey has estimated that about 56 per cent of the urban population and about 49 per cent of the rural population suffer from inadequate nutrition as they do not get a calorie intake of 2,400 per day considered as a reasonable level of nutrition. The level of malnutrition in all expenditure groups was higher in the urban areas than in the rural areas. This is partly due to the relatively lower prices of food products and their relatively easy availability in the rural areas.

Amitabh Kundu has highlighted the deterioration in basic food availability : "It is important that the per capita consumption of cereals has gone down from 15.4 kgs to 14.4 kgs per month during 1970-89 in rural areas, as per the NSS data. The corresponding figures for urban areas are 11.4 and 11.0 respectively. The average calorie intake per consumer unit in rural areas has also declined from 2,858 to 2,784 during 1973-83. The information from the National Nutrition Monitoring Bureau (NNMB) also confirms this trend."

A relatively more detailed examination of food requirement and actual consumption reveals that (i) in India, a high proportion of calorie intake is derived from cereals which indicates a low level of living. As against the requirements of 400 calories per day per adult, actual consumption of cereals is of the order of 470 calories. (ii) As against this, actual consumption of non-cereal such as vegetables, fruits, milk and milk products, sugar, fish, meat and eggs and vegetable oils is far short of their requirements. This only underlines the unbalanced nature of the diet of an average Indian.

The foregoing analysis brings out the clear need for an integrated policy with regard to prices, production and distribution of various foodgrains, coupled with a programme for raising the output of such non-cereals as milk products, poultry, fish, meat, pulses, vegetables and fruits. The highest priority has, however, to be given to raising the output of pulses without necessarily diverting the land from cereal production.

(4) ***Imbalance between Population Size, Resources and Capital*****:** A very important problem which affects economic development is the rapid growth of population. As mentioned already, the rate of growth of population 1.5 per cent per annum by during 2000-05 which is still high. A rising population imposes greater economic burdens and, consequently, society has to make a much greater effort to initiate the process of growth. Moreover, with a rising population, per capita availability of land and such other resources fixed in supply, declines. Consequently, society has to make greater efforts to eke out more output per unit of land. Similarly, a significant proportion of the capital formation is utilized to provide basic facilities to the additional population at the present level of living. Obviously, checking the fast growth of population has a close relationship with economic development.

(5) ***Problem of Unemployment*****:** A major development issue in India is to eliminate unemployment and provide gainful employment to millions of people without work. In 2001-02, India had an incidence of unemployment under-employment of the order of 9.2 per cent. In other words, the development plans in India failed to absorb even the normal increase in labour force during this period, not to speak of reducing the backlog of unemployment.

Economic development in the sense of rise in real GNP and per capita real income is by itself of not much significance in India unless we remove unemployment and underemployment also. The employment strategy of planned development will have to be directed (a) to adopt an employment-intensive sectoral planning, (b) to regulate technological change to protect and enhance employment, and (c) to promote area planning for full employment. The focus should be to expand employment through labour-absorbing technologies.

The expansion of infrastructure and social services i.e., road construction, rural electrification, water supply, rural schools and community health schemes, besides, irrigation, power and housing programmes will help to generate massive employment through expansion in construction activity and their secondary and tertiary effects in raising agricultural productivity and income of the poor.

(6) ***Instability of Output of Agriculture and Related Sectors*****:** One of the major problems of Indian economy is the uncertainty of agricultural production, since agriculture is still a gamble in the monsoons. Since Independence, there has been considerable increase in the production of the agricultural sector. For example, between 1950-51 and 2003-04 production of foodgrains increased from 54 million tonnes to 213 million tonnes. Between 1961 and 2003-04,

production of wheat has increased spectacularly from 11 million tonnes to 72 million tonnes. In spite of this spectacular growth, foodgrains output has been fluctuating from year to year. This is also true of oilseeds, sugarcane, cotton and jute—the major commercial crops. Instability of output of agriculture also results in causing instability in the related sectors. For instance, a fall in the production of sugarcane or jute leads to a small availability of raw material for the sugar and textile industry. Similarly a cut-back in agricultural production also results in reduction of employment in agriculture and this in turn, reduces aggregate demand in the economy as the purchasing power of the peasants falls. Thus, a major development issue for the Indian economy is to devise a strategy of agricultural development which can promise a steady growth of agricultural output.

(7) *Imbalance between Heavy Industry and Wage Goods*: During the British period, as a matter of policy, the alien government did not encourage the growth of heavy industry. But in the post-independence period, as a matter of deliberate policy, the Government decided to give a boost to heavy industry so as to build the industrial base of the economy. On account of the Chinese invasion in 1962 India realised her weakness in defence preparedness and thus switched over to investment in favour of defence industries which was largely in the nature of heavy industries.

As a result of the stepping up of investment in the heavy industry sector, as was rightly done, it was quite natural that the share of wage goods sector in total investment fell from 41 per cent in 1950-51 to 31 per cent in 1974-75. An analysis of the Indian economy during 1963-76 made by Professor P.R. Brahmananda revealed that supply of wage goods rose at smaller pace than the supply of non-wage goods, the growth rate of supply of wage goods sector was just 2 per cent per annum as against over 4 per cent in the non-wage goods sector. This resulted in a sharp increase in the prices of wage goods at the annual rate of 8 per cent per annum. Thus, the increase in real wages of workers that had taken place during the early phase of planning was wiped out by the increase in the prices of wage goods during 1963-76.

But then in the ultimate analysis, the impact of economic development has to be judged by an increase in the availability of wage goods to the masses. Two things are essential. Firstly, the supply of wage goods should grow at a faster rate than that of non-wage goods; and, secondly, the price of wage goods should be stabilised.

Now that the economy has been able to build a reasonable industrial base, it is imperative that the imbalance between the heavy industry and wage goods sector be corrected by shifting investment polices in-favour of wage goods. This is not to say that the country has reached the goal of self-reliance in heavy industry, but to emphasise that simultaneous development of heavy industry and wage goods sector can bring about balanced development of the economy. This path of growth will help to improve the level of living of the masses.

(8) *Imbalance in Distribution and Growing Inequalities:* There have been growing inequalities of income and wealth in India during the last five decades of planned economic development, redistribution of income in favour of the less privileged classes has not taken place. On the other hand, concentration of income and wealth has increased. Various studies and surveys have clearly indicated that even the small gains of development over the years have not been equitably distributed. The condition of the bottom 20 per cent of the population has definitely deteriorated and the next 20 per cent of the population has remained stagnant. A leading issue of economic development is to assure continued growth with justice through better distribution of national wealth produced in the country.

We have mentioned the major issues of development in the Indian economy. All these can be resolved in terms of three leading issues viz., poverty, unemployment and inequality. Some of the issues are in the nature of strategies to find a solution to the basic problem of poverty and inequality.

The Research Study of the World Bank about eight high performing Asian Economies (HPAEs): Japan, the “Four Tigers” - Hong Kong, the Republic of Korea, Singapore and Taiwan (China) and the three newly industrialising economies (NIEs) of South-east Asia, Indonesia, Malaysia and Thailand has recorded that these economies grew faster than all other regions of the world. “In large measure the HPAEs achieved high growth by getting the basics right. Private domestic investment and rapidly growing human capital were the principal engines of growth. And some of these economies also got a head start because they had a better-educated labour force and a more effective system of public administration. In this sense, there is little that is “miraculous” about the HPAEs’ superior record of growth; it is largely due to superior accumulation of physical and human capital.”

"But these fundamentals do not tell the entire story. In most of these economies; in one form or another, the government intervened — systematically and through multiple channels — to foster development and in some cases the development of specific industries."[3]

To sum up, it is quite possible that mere emphasis on G.N.P. approach to development may result in increases of national income by the manipulation of capital-output ratios but in the process, the economy may be faced with the problem of massive unemployment. It is, therefore, of vital importance that the pattern of investment should be so designed that certain areas such as defence equipment, engineering and metallurgical industries, heavy industries, shipping, etc., may be permitted to use sophisticated capital-intensive technology but bulk of the consumer goods industries and various programmes of agricultural development should emphasize labour-absorbing technologies with low doses of capital. Such a course is vitally necessary in the early phase of development in which population pressures are heavy on account of a fast decline in death rate. The harmonization of the objective of expanding production with that of securing full employment is a logical necessity in India.

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3. World Bank (1993), ***The East Asian Miracle — Economic Growth and Public Policy***, p. 5.

CHAPTER

2

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

"Indeed some kind of chart might be drawn up to indicate the close connection between length of British rule and progressive growth of poverty. That rule began with outright plunder, and a land revenue system which extracted the uttermost farthing not only from the living but also from the dead cultivators. It was pure loot".

—Jawaharlal Nehru

1. INDIAN ECONOMY IN THE PRE-BRITISH PERIOD

The Indian economy in the pre-British period consisted of isolated and self-sustaining villages on the one hand, and towns, which were the seats of administration, pilgrimage, commerce and handicrafts, on the other. Means of transport and communication were highly underdeveloped and so the size of the market was very small. To understand pre-British India, it is essential to study the structure of the village community, the character of towns, the character of internal and foreign trade, the state of the means of transport and communications.

(a) The Structure and Organisation of Villages

The village community was based on a simple division of labour. The farmers cultivated the soil and tended cattle. Similarly, there existed classes of people called weavers, goldsmiths, carpenters, potters, oil pressers, washermen, cobblers, barber-surgeons, etc. All these occupations were hereditary and passed by tradition from father to son. These craftsmen were paid a stipend out of the crops at the harvest time in lieu of the services performed.

Most of the food produced in the village was consumed by the village population itself. The raw materials produced from primary industries were the feed for the handicrafts. Thus the interdependence of agriculture and hand industry provided the basis of the small village republics to function independently of the outside world. Sir Charles Metcalfe writes in this connection : "The village communities are little republics having nearly everything they want within themselves; and almost independent of foreign relations. They seem to last where nothing lasts. This union of the village communities, each one forming a separate little state by itself... is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence."[1] The villages did acknowledge some outside authority, may be that of a local princeling, who in turn may be under a Muslim Nawab or a Hindu king, by paying a portion of the agricultural produce varying between one-sixth to one-third or even in some periods one-half as land revenue. The land revenue sustained the government.

1. Quoted by Jawaharlal Nehru, ***Discovery of India***, (1947). p. 302.

There were three distinct classes in village India: (i) the agriculturists, (ii) the village artisans and menials, and (iii) the village officials. The agriculturists could be further divided into the land-owning and the tenants. Labour and capital needed was either supplied by the producers themselves out of their savings or by the village landlord or by the village moneylender. These credit agencies supplied finance at exorbitant rates of interest but since the moneylender and the landlord were the only sources of credit, the peasants and even the artisans were forced to depend on them. The village artisans and menials were the servants of the village. Most of the villages had their ***panchayats*** or bodies of village elders to settle local disputes. The panchayats were the courts of justice.

The villages of India were isolated and self-sufficient units which formed an enduring organisation. But this should not lead us to the conclusion that they were unaffected by wars or political upheavals. They did suffer the aggressors and were forced to submit to exactions, plunder and extortion, but the absence of the means of transport and communications and a centralized government helped their survival.

(b) The Structure and Character of the Towns

Towns had come into being principally on account of the following three reasons :

(1) Towns were the places of pilgrimage or sacred religious centres. Important examples of such towns were Allahabad, Banaras, Gaya, Puri, Nasik etc.

(2) Towns were the seat of a court or the capital of a province. In this category may be included Delhi, Lahore, Poona, Lucknow, Tanjore, etc. These towns lost their importance as the prop of the court was withdrawn.

(3) Towns were trading or commercial centres. These towns existed on important trade routes. Mirzapur, Bangalore, Hubli, etc. are examples of this category.

Towns had a life much different from the villages. There existed a large variety of occupations and trades in towns. They catered to wider markets.

Industries and Handicrafts in Pre-British India

The popular belief that India had never been an industrial country, is incorrect. It was true that agriculture was the dominant occupation of her people but the products of Indian industries enjoyed a worldwide reputation. The muslin of Dacca, the calicos of Bengal, the sarees of Banaras and other cotton fabrics were known to the foreigners. Egyptian mummies dating back to 2000 B.C. were wrapped in Indian muslin. Similarly, the muslin of Dacca was known to the Greeks under the name Gangetika.

The chief industry spread over the whole country was textile handicrafts. The high artistic skill of the Indian artisans can be visualised from this account given by T.N. Mukherjee : "A piece of the muslin 20 yards long and one yard wide could be made to pass through a finger ring and required six months to manufacture."[2] Besides the muslins, the textile handicrafts included chintzes of Lucknow, dhotis and dopattas of Ahmedabad, silk, bordered cloth of Nagpur and Murshidabad. In addition to cotton fabrics, the shawls of Kashmir, Amritsar and Ludhiana were very famous.

Not only that India was also quite well-known for her artistic industries like marble-work, stone-carving, jewellery, brass, copper and bell-metal wares, wood-carving, etc. The cast-iron pillar near Delhi is a testament to the high level of metallurgy that existed in India.

The Indian industries "not only supplied all local wants but also enabled India to export its finished products to foreign countries."[3] Thus, Indian exports consisted chiefly of manufactures like cotton and silk fabrics, calicos, artistic wares, silk and woollen cloth. Besides, there were other articles of commerce like pepper, cinnamon, opium, indigo, etc. In this way, Europe was a customer of Indian manufactures during the 17th and 18th centuries. It was this superior industrial status of India in the pre-British period that prompted the Industrial Commission (1918) to record : ***"At a time when the West of Europe, the birth place of modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth of her rulers and for high artistic skill of her craftsmen. And even at a much later period, when the merchant adventurers from the West made their first appearance in India, the industrial development of this country was, at any rate, not inferior to that of the more advanced European nations."***[4]

2. ECONOMIC CONSEQUENCES OF BRITISH CONQUEST

India had been conquered before the British too but the invaders settled in India. The difference of the British conquest lies in the fact that it led to the emergence of a new political and economic system whose interests were rooted in a foreign soil and whose policies were guided solely by those interests. Whereas the early invaders Indianized themselves, the British

2. Quoted by D.R. Gadgil, ***The Industrial Evolution of India***, p. 34.
3. Ranade, ***Essays on Indian Economics***, p. 171.
4. ***Industrial Commission Report***, p. 1.

tried to keep a distance between them and the Indian people and thus created the distinction erstwhile not known to Indian history–the foreign rulers and the Indian subjects.

The British rule can be divided into two epochs, first the rule of the East India Company ranging from 1757 to 1858, and second, the rule of the British Government in India from 1858 to 1947. The establishment of the British rule itself was a slow and lengthy process, extending over more than a hundred years. The British conquest which started in 1757 with the Battle of Plassey was completed only by 1858. During this period England was passing through the period of changes in the techniques of production which revolutionised manufacturing. The coming of Industrial Revolution which synchronised with the period of British conquest helped the British to sell machine-made goods in India in competition with Indian handicrafts. The British conquest led to the disintegration of the village community partly by the introduction of the new land revenue system and partly by the process of commercialisation of agriculture. The new land system and the commercial agriculture meant untold exploitation of the Indian peasantry and the country was consequently plagued by frequent famines. The British were not interested in developing India as such. The growth of railways or the spread of irrigation or the expansion of education or the creation of revenue settlements were all initiated with one supreme goal, i.e., to accelerate the process of economic drain from India. To understand the economic consequences of the British conquest, it would be convenient to study them under the following heads : (1) Decline of Indian handicrafts and progressive ruralization of the Indian economy; (2) growth of the new land system and the commercialisation of Indian agriculture; and (3) the process of industrial transition in India.

3. DECLINE OF INDIAN HANDICRAFTS AND PROGRESSIVE RURALISATION OF THE INDIAN ECONOMY

Before the beginning of Industrial Revolution in England, the East India Company concentrated on the export of Indian manufactured goods, textiles, spices, etc., to Europe where these articles were in great demand. The Industrial Revolution reversed the character of India's foreign trade. Tremendous expansion of productive capacity of manufactures resulted in increased demand of raw materials for British industry and the need to capture foreign markets. As a first step, attempts were made to restrict and crush Indian manufactures. On the other hand, efforts were made to commercialise agriculture so as to step up the export of raw materials. The Indian textile handicrafts were the first to be hit. The decline of this industry started a chain reaction leading to the speedy decline of other handicrafts. The process of decline of handicrafts was accelerated by the development of means of transport. The principal causes that led to the decay of handicrafts were as follows :-

(*a*) *Disappearance of Princely Courts*. The growth of quite a number of industries and towns was possible owing to the patronage of nawabs, princes, rajas and emperors who ruled in India. The British rule meant the disappearance of this patronage enjoyed by the handicrafts. Cotton and silk manufactures suffered especially. Besides, the artisans who manufactured specially designed articles for display and decoration of courts also suffered because of a decline in the demand for works of art.

(*b*) *Hostile Policy of the East India Company and the British Parliament*. The British were always guided by their own interests and never bothered to consider the effects of their policies on the people of India in terms of unemployment, human suffering, famines, etc. They formulated certain policies, and propagated them but when conditions changed in England they were quick to reverse or suitably alter them. The British economists always tried to provide the theoretical basis of these policies and behind the theoretical formulations were the British interests. For instance, in the first half of the 18th century, the British used tariff with the object of protecting their woollen and silk manufactures on the one hand and of raising additional revenues to finance continental wars, on the other. The period 1882 to 1894 was one of complete free trade. By this time, England had developed industrially to such an extent that unrestricted competition of British manufactures with Indian handicrafts led to their decline. It was only when England rose to the position of industrial supremacy that free trade was advocated by the British economists and administrators. Thus, the British manufacturers employed the arm of political injustice in order to exploit the Indian market. The selfish policy of the British imperialists crippled Indian industries and helped the process of industrialisation in Britain.

(*c*) *Competition of Machine-made Goods*. The large-scale production that grew as a result of Industrial Revolution meant a heavy reduction in costs. It also created a gigantic industrial organisation and, consequently, the machine-made goods began to compete with the products of Indian industries and handicrafts. This led to the decline of textile handicrafts–the largest industry of India. Whereas the British emphasized the free import of machine-made manufactured goods they did not allow the import of machinery as such. The decline of Indian handicrafts created a vacuum which could be filled by the import of British manufactures only. Thus, India became a classic example of a colonial country supplying her imperialist rulers raw materials

and foodstuffs and providing markets for the manufactures of her rulers. The development of roads, railways and telegraphs, intensified the competition between indigenous and foreign goods and hastened the process of the decline of handicrafts. The opening of the Suez Canal in 1869 reduced transport costs and thus made the exploitation of the Indian market easier.

(*d*) *The Development of New Forms and Patterns of Demand as a Result of Foreign Influence.* With the spread of education, a new class grew in India which was keen to imitate western dress, manners, fashions and customs so as to identify itself with the British officials. This led to a change in the pattern of demand. Indigenous goods went out of fashion and the demand for European commodities got a fillip. Besides, there was a loss of demand resulting from the disappearance of princely courts and nobility. Thus, the British rule, silently but surely, alienated the Indians not only from Indian culture but also diverted in its favour their form and pattern of demand for goods.

The destruction of Indian handicrafts had far-reaching economic consequences. It led to unemployment on a vast scale. Since textile industry was the worst sufferer in this process, the weavers were hit the most. Lord William Bentinck reported in 1834 : "the misery hardly finds a parallel in the history of commerce. The bones of cotton weavers are bleaching the plains of India."

Another consequence of the decline of handicrafts was the compulsory back-to-the-land movement. The British destroyed the institution of Indian handicrafts but did not care to provide an alternative source of employment. The unemployed craftsmen and artisans shifted to agriculture and increased the proportion of population dependent on land. This trend of the growing proportion of the working force on agriculture is described as 'progressive ruralization' or 'deindustrialization of India'. In the middle of the nineteenth century, about 55 per cent of the population was dependent on agriculture, in 1901 it was about 68 per cent, the proportion went up to about 72 per cent in 1931. Thus, the increased pressure of population on land was responsible for progressive sub-division and fragmentation of holdings. It led to an increase in land-rents charged from tenants. It meant an increase in the number of landless labourers. Thus, the crisis in handicrafts and industries seriously crippled Indian agriculture.

4. THE LAND SYSTEM DURING 1793 – 1850

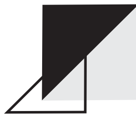
Another important impact of the British rule is the growth of a new land system in India. In the early period of the East India Company rule, the Company directors were keen on securing the largest possible revenue. This policy was marked by excessive exactions from peasants not realising that in the process the British were killing the goose that laid the golden egg. But land revenue was a principal source of finance for Company administration in India as also of satisfying the Company directors in England with larger returns every year from their conquest of India.

In order to bring about stability in agriculture the British introduced land settlement in 1793. In Bengal and neighbouring areas 'permanent settlement' was introduced. The settlement raised the status of revenue collectors to that of private landlords. It fixed land revenue in perpetuity. This was called the Zamindari system and the zamindar was required to deposit an enhanced land revenue to the state. Later the British extended the settlement to other states and created zamindars there too but they changed over to 'temporary settlement' under which land revenue could be reassessed after a period ranging between 25-40 years in different states.

Another and a totally different land system was evolved for large parts of Bombay and Madras and subsequently extended to north-eastern and north-western India. According to this system, called the ryotwari settlement, each peasant holding a plot of land was recognised as the landlord and made directly responsible to the state for the annual payment of land revenue.

It may be pointed out that in both cases, the land rents fixed were excessive and both the system were instrumental in the destruction of the organic village community based on custom and tradition. Daniel and Alice Thorner write : "Whereas the zamindari system made the landlords masters of the village communities, the ryotwari system cut through the heart of the village communities by making separate arrangements between each peasant cultivator and the state."[5] Through the introduction of zamindari system, the British were able to create a class of people whose interests were directly tied to British rule in India. But the system helped to create a class of absentee landlords who were more interested in squeezing higher land rents than in real agricultural progress. Excessive pressure of population resulting in a high demand for land helped the zamindars to charge exorbitant rent and numerous other exactions from the tenant-cultivators. The result of the whole change in the land system led to the emergence of subsistence agriculture. Even the ryotwari-system lost its original form and the rigorous, prompt and inelastic demands of high revenue forced peasant-cultivators to sell land to absentee landlords or moneylenders. The British land system introduced by Lord Cornwallis, thus helped the concentration of economic power in the hands of absentee landlords and moneylenders in rural India. It depressed agriculture and the peasantry.

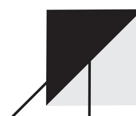
5. Daniel and Alice Thorner, ***Land and Labour in India*** (1962). p. 53.



5. COMMERCIALISATION OF AGRICULTURE (1850-1947)

Another noteworthy change in Indian agriculture was its commercialisation that spread between 1850-1947. ***Commercialisation of agriculture implies production of crops for sale rather than for family consumption***. At every stage of the economic history of the nation, a part of the agricultural output is produced for the market. Then, what distinguished commercial agriculture from normal sales of marketable surplus ? It was a deliberate policy worked up under pressure from British industries. By the middle of the nineteenth century, Industrial Revolution had been completed in England. There was a tremendous demand for raw materials, especially cotton, jute, sugarcane, groundnuts for the British industries. By offering a higher bait of market price, the peasants were induced to substitute commercial crops for the food crops as the former were more paying than the latter. Consequently, the peasants shifted to industrial crops and in some districts, the movement for commercial agriculture became so strong that the peasants started buying foodstuffs from the ***mandis*** for their domestic needs. This led to a fall in the production of food and, consequently this period is marked by the occurrence of most terrible famines in the economic history of India. Commercial agriculture was also, to some extent, the result of the mounting demands of the land revenue by the state and excessive rents by the landlords from the peasantry.

The process of commercial agriculture necessitated by the Industrial Revolution was intensified by the development of an elaborate network of railway in India after 1850. Railways linked the interior of the country with ports and harbours, urban marketing centres and thus Indian agriculture began to produce for world markets. Large quantities of wheat from Punjab, jute from Bengal and cotton from Bombay poured in for export to England. The same railways which carried commercial crops from the various parts of the country, brought back the foreign machine-made manufactures to India. Thus, railways and link-roads connecting the hinter-land of country with commercial and trading centres were instrumental in intensifying commercial agriculture on the one hand and sharpening competition of machine-made goods with Indian handicrafts, on the other. These factors led to the ruin of Indian industries.



6. FAMINES AND FAMINE RELIEF IN INDIA

The new land system and commercialisation of Indian agriculture produced very adverse economic consequences on the Indian economy. These influences retarded, nay halted, the process of industrialisation of the Indian economy, created "built-in depressors" in agriculture and were responsible for the occurrence of famines in India.

Frequence of Famines in the British Period

During 1765 and 1858, (the period of company rule) twelve famines and four major scarcities occurred. After the transfer of power to the Crown, contrary to expectations, the frequency of famines increased. Between 1860 and 1908, 20 famines occurred in a period of 49 years. Between 1908 and 1942, no major famine occurred in India, although some scarcities were experienced. There was a comfortable feeling that famines were something of the past but the Bengal famine of 1943 was a tragedy of an unprecedented magnitude. The Famine Enquiry Commission estimated that the death toll due to famine and disease was of the order of 1.5 million persons. Unofficial estimates, however, put the number of deaths on account of this famine to 3.5 million.

The Nature of Famines in India

Before the advent of modern means of transport, especially railways, the famines in India were localised scarcities of food in those regions where the crops had shrunk on account of bad rains. Both the construction of railways and the growth of trade after 1860 brought about a radical change in the nature of famines. Previously a famine meant extreme hunger and the population had to undergo suffering on account of lack of food because there were no means of transporting the surplus foodgrain even if it was available in other parts of the country. The position after 1860 was that the rapid means of transport made it possible to carry food from one region to the other without much loss of time. But periods of famine were invariably periods of high food prices and extensive agricultural unemployment. Therefore, the mass of the poor people found it impossible to purchase food. Consequently, the earlier famines were described as food famines but later ones are more appropriately described as purchasing power famines. The Famine Commission (1898) made it abundantly clear when it emphasized that food was "always purchasable in the market though at high and in some remote places at excessively high prices."[6] Two factors were responsible for pushing up food prices : First, an impending shortage of food meant hoarding and speculation which helped to push up the price level very fast. Secondly, government did not allow any decrease in the export of foodgrains even in the lean years. Consequently, the speculator and the Government both accentuated the gravity of the problem.

6. ***Famine Commission (1898). Report,*** p. 585.

Causes of Famines

There is no doubt that the immediate cause of famines was the failure or the unseasonableness of rains. It is common knowledge that the means of irrigation were undeveloped and rainfall played a crucial role in agricultural production. Famines were a common occurrence in the dry regions and areas with a rainfall varying between 15 and 60 inches. The areas affected most by famines were Bihar, West Bengal, Orissa, Rajasthan, Tamil Nadu, Maharashtra, Andhra Pradesh and Karnataka. Failure of rains caused an absolute deficiency which resulted in great famines, but unseasonableness of rainfull also proved destructive to crops and, therefore, created food scarcity. In a country wholly or mainly depending on rainfall, considered as the most dominant factor determining agricultural production was the behavior of monsoons.

To understand the real factors which led to the occurrence of famines again and again in India--while they were banished after 1850 from Europe--it is quite desirable to understand the economic and sociological transformation that took place during the British rule. Three factors can be discerned in the Indian agricultural society during the British period :

(1) ***The Destruction of Indian Handicrafts.*** Fierce competition from British manufactures resulted in the destruction of Indian handicrafts. It stripped the artisan, the weaver and the handicraftsman of his means of livelihood. Under the circumstances, the unemployed increased the pressure of population dependent on land. This led to excessive sub-division and fragmentation of land, the creation of a class of landless labourers and an increase in the rent of land. Whereas in 1842, Sir Thomas Munro did not deem it necessary to statistically measure the number of landless labourers because they formed a too insignificant portion of Indian agricultural population, in 1872 the Census Commission counted agricultural labourers as 18 per cent of agricultural working force. This sudden increase of the agricultural proletariat in the 30-year period exposed the most vulnerable section of the population in Indian rural society to the uncertainties of weather.

(2) ***The New Land System.*** The British created a class of landlords so as to affix responsibility for land revenue, but the British left the process of rent fixation to the free market mechanism. The increasing demand for land for a growing agricultural population led to an exorbitant increase in rents. Land was transformed in this process to an attractive capital asset. Thus, there was a great desire among the moneylending classes to acquire land. The rise in prices of land enhanced the value of the security in the form of land against which peasants could borrow. This led to increase in agricultural debt of the Indian peasantry repeatedly exposed to uncertainties. The high rates of interest charged by the moneylending classes made it impossible for the peasants to repay their debts. Gradually lands passed on to the moneylending classes. The dispossession of the peasantry by the moneylenders added to the process of pauperisation of the cultivating classes.

Thus, the new land relations which embodied the creation of a class of land owners and a class of cultivators (whether on a tenancy basis or a daily wage) separated ownership from cultivation. The landlords were interested in extracting high rents leaving a pittance with the cultivators. The investment on land fell sharply because the cultivators had to part off with a major portion of the produce in the form of rent to the landlords and interest to the moneylenders. This created in Indian agriculture a built-in-depressor. Thus, the new agrarian relations were disincentive-ridden and therefore, retarded the process of agricultural development.

(3) ***The Impact of Colonial Rule.*** Colonialism also had a deep impact on the repeated occurrence of famines in India. The destruction of the Indian handicrafts increased unemployment in the rural areas. Whereas in England, surplus labour from rural areas was quickly absorbed in new industries created in the process of industrialisation, nothing of this kind happened in India. The industrialisation of the Indian economy would have deprived England of a ready market for its goods and so the colonial interests were opposed to the development of industries in India. Thus, labour thrown out of employment in traditional industries imposed additional burden on a subsistence agriculture.

But the burden of colonialism was to be borne by agriculture. The cost of extravagant and lavish British administration, the cost of imperial wars in Burma and Afghanistan, the depreciation of the value of the Indian currency since 1873 and the growing burden of home charges were to be paid by the Indian people. The major taxes were land revenue, excise, salt tax, stamps and opium. Income tax which was levied in 1886 was withdrawn because its yield was too poor. Apart from opium, all other taxes fell on the rural classes. Land revenue was the chief fiscal engine and this increased the burden on the peasantry.

On account of these factors, India was forced to keep a favourable balance of trade with England. But her principal exports were mainly food and agricultural raw materials. Thus, even in the famine years exports of foodgrains had to be maintained in order to create an export surplus on merchandise account. There is evidence that after 1870, foodgrains exports increased because the railways became a convenient vehicle of mobilisation of the food surplus. Thus, the compulsions of colonialism in maintaining an export surplus, burdening the peasantry with higher taxes and the swelling up of an agricultural population led to the impoverishment of the rural classes.

With unlimited supplies of labour available in the countryside, wages in agriculture remained highly depressed while prices of food rose in times of scarcity. The agricultural labourers were, therefore, the most

hard-hit class. Thus, it is quite reasonable to trace the basic causes of famines in the destruction of the Indian handicrafts, the growth of an agricultural proletariat, the creation of disincentive-ridden new land system, rising prices of foodgrains and stationary wage levels and the increasing burdens on the rural population by the colonial government. Failure of rains only served as an immediate cause. The government did provide some relief, but nothing was done to remove the basic causes of agricultural stagnation and so famines continued to occur again and again and caused untold misery and suffering.

7. PROCESS OF INDUSTRIAL TRANSITION IN INDIA

The process of industrial transition in the British period is broadly divided into industrial growth during the 19th century and industrial progress during the 20th century. It was mainly the private sector--whether indigenous or foreign -- that carried industrialisation forward. Only after the First World War some protection was granted to Indian industries otherwise Indian industry had to weather all storms and face world competition on its own strength. This explains the slow growth of industrialisation.

(a) Private Enterprise and Industrial Growth in the 19th Century

The outstanding industrial events of the 19th century were the decline of indigenous industries and the rise of large-scale modern industries. This change was brought about by private enterprise. The rise of large-scale industries was slow in the beginning but by the close of the 19th century, the movement was more rapid.

The period 1850-55 saw the establishment of the first cotton mill, first jute mill and the first coal mine. In the same period, the first railway line was laid in India. In a period of 25 years, that is, by the last quarter of the 19th century, there were 51 cotton mills and 18 jute mills. During the same period, India produced one million tonnes of coal per annum and the Indian railways had a mileage of 8,000. By the end of the 19th century there were 194 cotton mills and 36 jute mills, and coal production had risen to over 6 million tonnes per annum. In spite of the very rapid increase in industrialisation and the fact that the foundations for the development of modern industries for the utilisation of coal and iron resources were laid by the end of the 19th century, India was being gradually converted into an agricultural colony of the British. By 1900, India had become a great exporter of rice, wheat, cotton, jute, oilseeds, tea, etc. and an importer of British manufactures. In this way India had become an appendage of the British colonial system.

During the 19th century, it was but natural that British business should pioneer industrial enterprise in India. The Britishers had experience of running industries at home. British enterprise received maximum state-support. Besides, much of the business developed in India was related either to the Government or interests in some way connected with Britain. Though industrialisation was started by the British in the 19th century, the Britishers were more interested in their profit and not in accelerating the economic growth of India.

Apart from the British, the Parsis, the Jews and the Americans were also prominent first as merchants and later as industrialists. They were close-knit and highly progressive communities. The Parsis were particularly progressive to rapidly adopt European business methods.

Within the Indian community, conditions were not favourable for the emergence of industrial leaders, partly because of the peculiar way in which factory industry came to India, as compared to its development in England. In the West two principal groups were ready to set up factories : the merchants and the master craftsmen. The merchants had capital, marketing ability and capacity to manage labour. The master craftsmen did not have capital but had understood the materials and their proper handling. Because of certain peculiar features, neither Indian merchants nor Indian craftsmen took interest in the factory system. Most Indian merchants belonged to the ***Baniya*** or moneylending community. They possessed capital and were always eager for its security and profits. But when the factory system was introduced in India by the British, the merchant class found greater opportunities for trade. The development of shipping and the building of railways resulted in larger trade, both external and internal. Besides, there were more opportunities for lending money. Thus, the merchants found greater scope for profits in their traditional occupations and hence did not give them up and take to the factory industries.

At the same time, Indian craftsmen too did not play the part played by their western counter-parts in the field of industrialisation because they did not possess large capital. Besides, they were without proper training and education.

However, Indians joined the ranks of industrialists early in the middle of the 19th century and their role grew throughout the period, continuously and steadily. They used the same managing agency system as the Britishers. They were becoming increasingly important members of companies established by the Britishers. Those indigenous business groups who gave up traditional occupations and who took to industrial ventures were the Parsis, the Gujaratis, the Marwaris, the Jains and the Chettiars.

(b) Private Enterprise and Industrial Growth in the First Half of the 20th Century

In 1905, the Swadeshi movement was started. It stimulated Indian industries and there was a slow but steady growth in the field of existing industries as well as the establishment of new industries between 1890 and the outbreak of the war of 1914. Over 70 cotton mills and nearly 30 jute mills were set up in the country. Coal production was more than doubled. Extension of railways continued at the rate of about 800 miles per annum. The foundation of iron and steel industry was finally laid during this period.

The war of 1914-18 created enormous demand for factory goods in India. Imports from England and other foreign countries fell substantially. Besides, the government demand for war-purposes increased considerably. As a result, great stimulus was given to the production of iron and steel, jute, leather goods, cotton and woollen textiles. Indian mills and factories increased their production and were working to full capacity. But on account of the absence of heavy industries and also of the machine tools industry, they could not develop fast enough.

Tariff Protection to Indian Industries. In 1923 the Government of India accepted the recommendations of the First Fiscal Commission and gave protection to selected Indian industries against foreign competition. Between 1924 and 1939 several major industries were given protection by the Government, prominent among them being iron and steel industry, cotton textiles, jute, sugar, paper and pulp industry, matches, etc. Indian industrialists took advantage of the policy of protection extended by the Government and developed the protected industries rapidly. They were able to capture the entire Indian market and eliminate foreign competition altogether in important fields.

The outbreak of the war in 1939 created very urgent demand for manufactured goods. The imports from foreign countries declined while the government demand for them increased. Naturally the existing industries expanded rapidly. Many new industries which came to be known as war babies were started. But as during the First World War, the Indian industries suffered again for want of replacements, stores and technical knowledge. The increase in industrial output between 1939 and 1945 was about 20 per cent. But the conditions created by the war led to the maximum utilisation of existing capacity. The conditions of shortage created by the Second World War continued in the post-war period, but the overall index of output went up by only 5 per cent between 1945 and 1950.

Decline in the Share of Foreign Enterprise. By the beginning of the First World War the British controlled at least half the production in India's major industries. But this control steadily declined. According to one estimate, the British controlled 43 per cent of gross assets in 1914, 10 per cent in 1935 and only 3.6 per cent in 1948.

(c) Causes of Slow Growth of Private Enterprise in India's Industrialisation (1850-1957)

It is important to find out the reasons why Indian industry did not expand significantly relative to the rest of the economy over the hundred years before Independence. They were :

(*a*) *Unimaginative Private Enterprise*. One important reason frequently mentioned is the inadequacy of entrepreneurial ability. Indians were reluctant to enter the industrial field because of the comparatively easier and secure scope for profit which existed in trading and moneylending. The Britishers who pioneered industrial change in India were not really interested in industrialisation of the country as such. But then Indian industrialists too were so short-sighted, they rarely bothered about the future and cared very little for replacement and for renovation of machinery. They were influenced by nepotism rather than ability in their choice of personnel. They were also influenced by their trading background viz., high price and high profit margin rather than low prices and larger sales. They emphasized sales than production. To a certain extent, therefore, unimaginative private enterprise was responsible for the slow growth of industrialisation in this country.

(*b*) *Problem of Capital and Private Enterprise.* In the 19th and 20th centuries, Indian industrialists had suffered from lack of adequate capital. Just as British enterprise was prominent, so also British Capital was significant in India's industrialisation. A larger part of the total invested capital in modern enterprises in India was imported from Britain. Capital was scarce not only because the resources of the country were underdeveloped but also because the avenues for the investment of surplus wealth were few. There were no Government loans or company stocks and debentures. Accordingly, people held their wealth in the form of gold and silver.

There was complete absence of financial institutions to help the transfer of savings to industrial investment. The indigenous financial institutions concerned themselves with rural moneylending and financing of internal trade. Institutions which concerned themselves with rural savings for a comparatively long period, were altogether neglected. In the early days of industrialisation, people were generally hesitant to entrust their savings to the company promoters.

Banking was not highly developed in India and was more concerned with commerce rather than with industry. The Industrial Commission wrote in 1918 : "The lack of financial facilities is at present one of the

most serious difficulties in the way of extension of Indian industries." By 1870 there were only two joint stock banks of more than ₹ 5 lakhs capital each in the country. Even in the beginning of the 20th century, there were only 9 such banks. The swadeshi movement gave a fillip to the starting of banks but the number of bank failures in this period was so great as to cancel any good effect from banking expansion. The private bankers and joint stock banks did provide funds for industrial enterprises but this aid was limited to well-established concerns only.

It is interesting to note that Indian factory-owners followed closely the British system as regards capital resources. In the beginning funds for investment came from surpluses earned in rural moneylending and trading. But in course of time new resources were also tapped. For instance rulers and princes, those who amassed wealth from opium trade and in the cotton boom during the civil war in America, wealthy professional people like doctors and lawyers, Government officials, etc.--these people were induced to part with their wealth and savings for investment in industrial enterprises. The textile mills of Ahmedabad and to a small extent those of Bombay and Sholapur attracted deposits from the public. It is true that shortage of capital did affect industrialisation in India but too much importance should not be given to this factor alone.

(*c*) *Private Enterprise and the Role of the Government*. One of the important reasons and according to some authorities, the most important reason for the slow growth of Indian industries was the lack of support from the Government. In the 19th century, the Government did provide certain overhead investments which helped private enterprise. Examples were the railways and communications. But the Government did not provide the other conditions essential for private enterprise. The important fact to remember is that in the critical years of growth (between 1850 and 1947) Indian enterprise was operating under a foreign government which was extremely unsympathetic to native private enterprise.

The tariff policy in India reflected the needs of business interests in Great Britain. The British interests advocated free access to the Indian market. Till 1924 the Government refused to impose custom duties on the import of foreign goods. Even when they imposed low duties on some goods for purposes of collecting revenue, they sought to neutralise their effects by imposing equivalent excise duties on goods of local origin. When the Government ultimately adopted a policy of protection, it did not give protection to all industries but only to a few selected industries which fulfilled certain specified conditions.

It may be mentioned here that the British Government in India leaned heavily on industry in Britain for its large purchases of equipment for public utility in health and education, railway and military supplies, etc. Even simple machines and standard supplies were imported. Those orders could have served to stimulate expansion in Indian industry.

In spite of these difficulties, we must admire the achievements of India's indigenous business communities since 1850. At the same time, we can readily understand why industrial effort was not sufficient to accomplish a transition to industrialisation, to spark modernisation of agriculture and industrial activities comparable to those achieved in sovereign independents nations.

8. COLONIAL EXPLOITATION: FORMS AND CONSEQUENCES

The major form through which the exploitation of India was done was trade. Later, the British started making investments in Indian industries and the process of economic drain started through investment income in the form of dividends and profits. In addition to this, India had to pay the costs of British administration, in the form of home charges. They included salaries of British officers (both civil and military), payment of pensions, furloughs and other benefits, as also interest payments on sterling debt.

The main forms of colonial exploition were :

(i) Trade policies aimed at developing a colonial pattern of trade in which India would become an exporter of foodstuffs and raw materials and an importer of manufactures; (ii) encouragement of British capital to take up direct investment in Indian consumer goods industries; (iii) encouragement of finance capital, through the managing agency system, to appropriate a major portion of the profits through various malpractices; and (iv) to force India to pay the costs of British administration as well as to finance the wars and expeditions undertaken by the British Government.

(a) Exploitation through Trade Policies

Trade policies were used against India by the East India Company and later by the British Government to drain away wealth from India to feed the expanding British industry with raw materials and also to encourage the trend towards commercialisation of agriculture so that the Indian economy could be transformed as an appendage of the British colonial system. Thus, trade policies were a very convenient, but a potent source of exploitation.

1. *Exploitation of Cultivators to Boost Indigo-export –* East India Company wanted to encourage indigo export. Some (500 to 1000) European planters were settled in Bengal. They were given land at a very nominal price. They forced the cultivators on their land to cultivate and sell the indigo plant at a very low price.

Even other zamindars were compelled to allocate a portion of their land for indigo cultivation. Once an agreement was signed with a zamindar or a ryot accepted the advance for cultivation he had to suffer the ruthless exploitation of the indigo planters who made fabulous profits from its export.

2. *Exploitation of Artisans through Company Agents to Deliver Cotton and Silk Fabrics Much below the Market Price.* During the 18th century, the East India Company wanted to benefit from the export of Indian cotton and silk fabrics which enjoyed a world-wide reputation. For this purpose, the Company made use of agents called as ***Gomastas***. The ***gomastas*** who were Indians in the employment of the Company, would go to the village and force the artisans to sign a bond to deliver a certain quantity of goods at a price to be fixed by the ***gomasta***. The price fixed was at least 15 per cent and in extreme cases, even 40 per cent lower than the market price. In case, an artisan refused to accept the advance offered by the Company's ***gomasta***, he was punished by flogging and in certain cases, by imprisonment. In this way, through the Company's ***gomastas***, the East India company was able to procure cotton and silk fabrics at very low prices. Thus, the poor artisan was squeezed so that the East India Company made huge profits through the export of these fabrics. The ruthlessness of the Company was so inhuman that the artisans worked like bonded labour and this explains their growing pauperisation.

3. *Exploitation through the Manipulation of Import and Export Duties.* – Though Great Britain professed to be a follower of free trade, but her trade policies towards Indian goods only revealed that she never followed the policy of free trade. During the 18th century, Indian goods, specially cotton and silk fabrics, enjoyed a lead over the British goods. The aim of British trade policies was to destroy the supremacy of the Indian goods, protect the interests of British industries and ultimately succeed in penetrating the Indian market by the machine-made goods. To achieve this end, several measures were undertaken :

a. After 1700, imports of Indian printed cotton fabrics in England were banned. The purpose of this measure was to eliminate the Indian competitor from the British market. The craze for Indian goods was so strong that some smuggling did take place. A case was reported that an English lady who possessed an Indian handkerchief was fined £ 15.

b. Heavy import duties were imposed on Indian goods, other than foodstuffs and raw materials imported from India and very nominal duty on the imports of British manufactures into India. The declared policy of the East India Company was to encourage the production of raw cotton, raw jute, sugarcane, groundnuts, raw silk and other raw materials and to discourage the production of manufactures in India. This policy of unequal trade was forced on India and since India had been subjugated, she could not retaliate but accept this wanton attack on the industry. Ramesh Chandra Dutt citing the famous historian H.H. Wilson mentions :

"Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of the steam. They were created by the sacrifices of the Indian manufacturer. Had India been independent, she would have retaliated, would have proposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted to her, she was at the mercy of the stranger. British goods were forced upon her without paying any duty, and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms."[7]

c. Discriminating Protection Whittled Down by the Clause of Imperial Preference – Towards the beginning of the 20th century, there was a strong demand by the Indian national movement to protect the interests of Indian industries. The British Government decided to grant discriminating protection. During the process of implementation, only such industries were granted protection in which the Indian industry had to face competition with some other country and not Great Britain. Since Sweden happened to be the competitor, match industry was granted protection. But the woollen industry was not granted protection because the interests of the British came in clash with those of Indian industry. Similarly, cement industry was another example in which protection was denied. But in this case, the only serious competitor was U.K. Another example was that of heavy chemicals, an industry of national importance, in which protection was denied because there was a clash between British and Indian interest.

Within the framework of the policy of discriminating protection, Great Britain got the clause of Imperial Preference introduced. The sum and substance of this policy was that imports from Great Britain and exports to Great Britain should enjoy the most favoured nation treatment. This could be done by charging much lower import duties or no duties at all on goods imported from Britain. Similar preference to Great Britain was to be shown in exports vis-a-vis other nations. Thus, the British Government took away by the left hand what it gave in the form of discriminating protection by the right hand. In other words, the policy of imperial preference was used to eliminate competitors from the Indian market so that Great Britain could have full control to exploit it through its trade policies.

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7. Cited in Romesh Chander Dutt, ***The Economic History of India***, Vol. I, pp. 180-81.

Indian public opinion consistently opposed the introduction of imperial preference. Lord Curzon's government in 1903 definitely pronounced against the policy of Imperial preference on the following grounds:

(i) About 3/4th of India's imports came from the British Empire while the remaining 1/4th was of a kind which British Empire either did not produce or was not in a favourable position to supply.

(ii) In the decision of fiscal policy concerning India, powerful sections of the British people always exerted their influence and there was the danger that India might be forced to shape her policy not in accordance with her own needs but in accordance with the needs of other members of the Empire.

(iii) That the Government would lose a large portion of the revenue it received from British and colonial imports and it would be left with no alternative but to make up the deficit by enhanced duties on foreign goods.

(iv) If the matter was thought from the economic point of view, Lord Curzon's government thought, India had something but not perhaps very much to offer to the Empire. She had very little to gain but a great deal to lose.

All these arguments produced no effect on the British. The matter was referred to the Indian Fiscal Commission (1923) and the majority of the Commission expressed themselves in favour of Imperial Preference. Obviously, the British were more concerned about retaining their hold on the Indian market. Though they were great advocates of free trade in theory, in practice they used every device to protect their interests against the entry of other nations, especially Japan, into the Indian market. This would break their monopoly of exploitation which as rulers they were totally unwilling to compromise. The main purpose of protection was not to help Indian business to undertake investments in India, but to help the British capital find safe and secure avenues of investment. Writing in 1912, Alfred Chetterton in his work ***"Industrial Evolution of India"*** in a very forthright comment explained : "Protection would attract capital from abroad, and with the capitalist would come the technical expert and the trained organiser of modern industrial undertakings. Success would undoubtedly attend their efforts, and India would contribute labour and raw materials. The educated Indian would play but a small part; and he would in the course of time realise that the protective duties mainly served to enable Europeans to exploit the country .... India does not want a protective tariff to enable an artificial industrial system to be created, the masters of which will be able to take toll of the earnings of the country, and establish a drain on its resources which will in the long run retard progress". Prophetic though it may appear, later developments showed that the policy of discriminating protection supported by Imperial preference produced precisely the same results.

(b) Exploitation through export of British Capital to India

In the early phase of colonialism, the chief instrument of exploitation was trade but later the British thought of encouraging investment in India. There were three principal purposes of these investments. Firstly, after the first war of Indian Independence (1857), which the British described as the Mutiny, it was realised by the Government that for the effective control and administration of the country, it was essential that an efficient system of transport and communication should be developed. Secondly, in order to effectively exploit the natural resources of India, it was essential to develop public utilities like generation of electricity and water works. Thirdly, to promote foreign trade so that food and raw materials collected in various ***mandis*** are quickly transported abroad and the manufactures imported in India are quickly distributed in various markets, the British thought it necessary to link railways with major ports on the one hand and the marketing centres **(*mandis*)** on the other. This explains why railway development in India was planned in such a manner that it served the colonial interests. Thus, the major fields of direct foreign investments were as under:

Fields of Direct Foreign Investments

(1) Economic overheads and infrastructure like railways, ports, shipping, generation of electric energy, water works, roads and communications; (2) for promoting mining of coal, gold and petroleum and metallurgical industries; (3) for promoting commercial agriculture, investments in tea, coffee and rubber plantations; (4) to undertake investments in consumer goods industries like cotton and jute textiles, matches, woollen textiles, paper, tobacco, sugar, etc; (5) investments in banking, insurance and trade; and (6) some investments were made in machine building, engineering industries and chemicals.

All these investments were undertaken by the British multi-nationals operating through their subsidiaries. Some of these investments took the form of loans to the British Government in India in the form of sterling debts.

Two Major Forms of Investment

(i) Direct private foreign investment in India was made in coal, mining companies, in jute mills, tea, coffee, rubber plantations and in sugar.

(ii) Sterling loans given to the British Government in India and public and semi-public organisations to undertake investments in railways, ports, electricity undertakings and other public utilities. These loans represented sterling debt.

Estimate of Foreign Capital

Various estimates of foreign capital were made, but most of these estimates suffer from limitations. The British investments were in so many diverse fields that a complete statement of assets and liabilities could not be attempted. Secondly, the same British Company had investments in a number of colonial countries. For instance, Findlay Shirras questioned the validity of the estimate of Paish on the ground that it included companies doing business in other countries as well as in India.

These estimates show that British capital has been growing during the period. The estimates by Findlay Shirras (1929) and the British Associated Chamber of Commerce (1933) can be considered fairly reliable. The estimate of the British Associated Chamber of Commerce further revealed that nearly 38 per cent of the foreign investments were in the form of Sterling debt of the Government, 50 per cent in Companies registered outside but operating in India; and only 12 per cent in companies registered in India and the rest. The analysis underlines the fact that British multinationals were the chief instruments of exploitation and it were they who drained out in the form of interest, dividend and profits the wealth of India. It was estimated that total pre-war British foreign investments were of the order of £ 4,000 million and thus one-fifth or 20 per cent of these investments were made in India. This was a measure of the importance of India in the British Empire.

Table 1. Estimate of Foreign Capital in India

Source	*Reference Year*	*Amount (£ million)*
Paish	1911	365
Findlay Shirras	1929	500
British Associated Chamber of Commerce	1933	1,000

During the Second World War, India was forced to export more to Britain than the latter could pay back via exports to India. This resulted in payment of the sterling debt and a sterling balance emerged in the Indian account. But during the war, the natural umbrella of protection was available to Indian businessmen and industrialists and they prospered by undertaking investments in industry. The huge profits earned by Indian businessmen enabled them to buy foreign business investments in India. Consequently, there was a decline in the magnitude of foreign business investments.

The Reserve Bank of India made an estimate of foreign investments and published its first Census of India's foreign liabilities and assets as on 30th June 1948. The RBI Survey revealed that total foreign business investments aggregated to ₹ 302 crores, out of which British investments were ₹ 230 crores i.e., 72 per cent of total.

The growth of British investments in India in the pre-independence period reveals that the British were interested in creating economic infrastructure so that they could administer the country properly and with its help trade could be promoted. Secondly, the British foreign investments mainly went in consumer goods industries and those concerned with the processing of primary produce meant for export. The British took care that no basic and heavy industries were built in India. This would have made the country industrially independent, which the rulers did not want. Lastly, the ownership and management of the industries were also in British hands. Thus, Indians had to content themselves with low-level jobs.

(c) Exploitation through Finance Capital via the Managing Agency System

Indian business did not possess any experience of the organisation of modern industry by setting up joint stock companies. The British merchants who had earlier set up trading firms acted as pioneers and promoters in several industries like jute, tea and coal. These persons were called as managing agents.

The managing agency firms may be described as partnerships of companies formed by a group of individuals with strong financial resources and business experience. The managing agency firm is entitled to the management of the whole affairs of the Company unless otherwise provided in the agreement.

The principal functions of the managing agents were as follows : (i) to do the pioneering work of floating new concerns; (ii) to provide their own funds and also to arrange for finance by acting as the guarantors; (iii) to act as agents for the purchase of raw materials, stores, equipments and machinery; (iv) to act as agents for marketing of the produce; and (v) to manage the affairs of the business.

The most important function of the managing agents was that they provided finance and as such, they were the financiers of the concerns. It would be, therefore, appropriate to describe these groups of financiers as finance-capitalists.

Among the pioneering managing agents were such famous business houses as Messers. Andrew Yule & Co., Martin Burns, Bird & Co., Duncan Brothers and Williamson Mager. Those European Managing Agents were the real pioneers of Indian industry. When India did not have a developed banking system, these managing agents supplied finance to set up jute mills and tea plantations.

Since there was no alternative system of finance, the Managing Agency System had to be accepted. These managing agents received a commission on certain jobs like purchase of raw materials, stores, equipment and machinery as also sale of output. They were paid heavy

office allowances for managing the affairs of the Company. They were also entitled to a share in the profits of the concern. In course of time, various malpractices developed in this system. Dr. P.S. Loknathan summed up the situation in the following words : "Finance, instead of being the servant of industry, has become its master." The managing agents became so powerful that the zeal of the pioneer was replaced by the exploitative tendency to charge a high commission and share of profits. Besides, instead of expanding Indian industry, the managing agents started exploitation of Indian natural resources for export. They floated a large number of concerns and got themselves appointed as their managing agents. In this way, they were not able to devote personal attention to the affairs of each one of them. The system, therefore, degenerated and became inefficient.

Although, in theory, the managing agents were to work under the control of the Board of Directors, but in practice, being financiers, they began to call the tune and the Board of Directors became mere puppets in their hands. This, set in motion, a process of fleecing the company. The managing agents, therefore, forced the companies to pay a minimum remuneration, even if the managed company suffered a loss. Commissions for purchase of stores, equipment, raw materials and machinery, and commissions for sale of output were demanded. Then they demanded a high percentage ranging between 12 to 14 per cent of profits for managing the affairs of the company. In case, the directors of the managed company refused or even indicated any disinclination, the managing agents would withdraw their finance and the company would go into liquidation. Thus the managing agents dictated and the directors dittoed. The Taxation Enquiry Commission rightly pointed out that during 1946 and 1953, the managing agents appropriated about one-half of what accrued to the shareholders. In other words, to charge 50 per cent of the gross profits as managing agency remuneration was considered very excessive. Herein lay the exploitative character of the managing agency system.

(d) Exploitation through Payments for the Costs of British Administration

The British employed a large number of British officers for the military and civil administration of the country. The British officers in the army were given a separate cadre and were paid much higher salaries and allowances than their Indian counterparts. All the top ranking positions were monopolised by the British officers.

Similar situation prevailed in the civil administration. All the key positions and top ranks were manned by British officers. They were also paid fabulous salaries and allowances. Besides this, they were provided other benefits for the maintenance of their children. These officers had immense administrative powers. They could award contracts for supplies and stores and thus the contractors paid them commissions for the favours. These unauthorised earnings had also become a part of the system. These officers after a certain specified period of service could seek retirement and thus were entitled to benefits of pension. The payments which were remitted to England out of the savings of the officers living in India and also on account of pension and other benefits were called as family remittances. These payments were a heavy drain on our resources. Besides, India had also to pay interest on sterling loans raised for the construction of railway and irrigation works. Payments accruing on account of interest on debts incurred by India and those connected with civil departments in India, such as pensions, gratuities, furlough allowances, and payments for stores purchased in India — all taken together were called Home Charges. In 1931, the payments accruing to Britain on account of home charges amounted to ₹ 43 crores.

Not only that, India was forced to pay for the various wars of the East India Company like the Mysore and Maratha Wars, the Afghan and Burmese Wars. The British forced the Indian people to pay through their nose for their expeditions to Prussia, Africa etc. The entire cost of the telegraph line from England to India was charged from India.

During the two World Wars, India exported more to Britain than it imported. Against this positive balance of trade, Britain authorised the Government of India to issue more currency on the backing of the Sterling Balance held in England. India exported more and imported less. The Sterling Balances, therefore, represented the sweat, the tears and the toil of the millions of the poor people of India. But Great Britain by its policy only exported inflation to India. This accounted for a much larger rise of the price level in India during the war. It imposed a heavy burden on the Indian people.

The consequences of the various forms of exploitation were that:

(i) India remained primarily an agricultural country and its agriculture became commercialised to serve the interests of Great Britain by exporting tea, coffee, spices, oilseeds, sugarcane and other foodstuffs, besides other raw materials.

(ii) India which was an industrially advanced country during the 16th and 17th century was not permitted to modernize her industrial structure during the 18th and 19th century. Her handicrafts were destroyed and she became an importer of manufactured goods.

(iii) The British employed the policy of discriminating protection along with imperial preference to have complete control over the Indian market. This also helped to provide safe and secure avenues for the British investors in India.

(iv) The British developed the economic infrastructure in the form of railways and irrigation and electricity works with a view to promote foreign trade and exploit India's natural resources to their advantage. Direct British investment was made in consumer goods industries like tea, coffee and rubber plantations, but no effort was made to develop heavy and basic industries.

(v) The Managing Agency System did help to promote consumer goods industries in the initial phase, but became exploitative in character later. It appropriated nearly 50 per cent of the gross profits as managerial remuneration.

(vi) The British exploited India through the economic drain via home charges. India was also forced to pay for several wars like Afghan and Burmese Wars. This was indicative of the highly exploitative character of the British rule.

The net result of the British policies was poverty and stagnation of the Indian economy.

Poverty of the Masses and the Economic Drain

Dadabhai Naoroji, a distinguished Indian economist, in his classic paper on the 'Poverty of India' (1876), emphasized that the drain of wealth and capital from the country which started after 1757 was responsible for absence of development of India. According to Dadabhai Naoroji. "The drain consists of two elements--first, that arising from the remittances by European officials of their savings, and for their expenditure in England for their various wants both there and in India: from pensions and salaries paid in England; and second that arising from remittances by non-official Europeans."[8] This implies that India had to export much more than she imported in order to meet the requirements of the economic drain. During the period of the East India Company, an outright plunder in the form of gift exactions and tributes was carried out. Dadabhai Naoroji, Y.S. Pandit and S.B. Saul have estimated the annual drain for various periods. Taking the estimates based on the balance of payments alone, Saul's figure for 1880 amounts to 4.14% of the Indian national income. Irfan Habib, therefore, writes : "The fact that India had to have a rate of saving of 4% of its national income just to pay the Tribute must be borne in mind when economists speak of the lack of internal capacities for development, or the low per capita income base, from which the British could not lift the Indians, however, much they tried."[9]

The economic drain of wealth prevented the process of capital creation in India but the British brought back the drained out capital and set up industrial concerns in India owned by British nationals. The government protected their interests and thus the British could secure almost a monopoly of all trade and principal industries. The British component of industries established in India further drained off Indian wealth in the form of remittances of profits and interest. Thus, the economic drain which commenced right from the inception of the British rule acted as a drag on economic development till 1947.

9. COLONIALISM AND MODERNIZATION

The British economists have always upheld that the backwardness of the Indian economy and its failure to modernize itself was largely due to the value system, i.e., spiritualism, asceticism, the caste system, joint family, etc. Similarly, the British economists have always argued that Indian capital was proverbially shy, it always sought safe avenues of investment and thus lacked the basic quality of adventure, which is an essential condition for dynamic entrepreneurship. Dr. Bipan Chandra who has examined the impact of colonial rule in modernizing India rejects both these arguments for absence of modernization as mere shibboleths. He writes : "It is a historical fallacy to assume that India under British rule did not undergo a fundamental transformation, or that it remained basically traditional."[10] But the modernization of India was brought within the political parameters of a colonial economy. Thus, the colonial links between India and Britain resulted in the progress of the Industrial Revolution in Britain while it meant the modernization of those sectors of the Indian economy which strengthened the process of integration of the Indian economy with British capitalism. "It was, therefore, not an accident nor was it historically exceptional that India was integrated into world capitalism without enjoying any of the benefits of capitalism, without taking part in the industrial revolution. It was modernized and underdeveloped at the same time."[11]

A close look at the economic development of India during the British period reveals that whenever India's colonial economic links in terms of foreign trade and inflow of foreign capital were disrupted, Indian economy made strides in industrial development. During the 20th century, the colonial economic links were interrupted thrice : first, during the First World War (1914-18), second, at the time of the Great Depression (1929-34) and third during the Second World War (1939-45). In other words, free flow of foreign trade and capital meant economic stagnation in India, while their

8. Dadabhai Naoroji, ***Poverty and un-British Rule in India***, p. 34.
9. Habib, Irfan, Processes of Accumulation in Precolonial and Colonial India, Mimeo.
10. Bipan Chandra, ***Colonialism and Modernization***, Presidential Address, Section II, Indian History Congress (1970), p. 3.
11. Ibid., p. 6.

absence (partial or total) provided an opportunity for Indian capital to open up avenues of industrial growth in areas choked off by imports.

It is also not correct to argue that British capital showed a spirit of adventure. The British developed the railways in India under the Guarantee System which assured a minimum return on whatever capital they invested. Similarly, the development of tea and coffee plantations or investment in jute industry was undertaken only when the British investor felt attracted by high profits available in these areas. Not only that, the entire policy of protection was aimed at protecting British industrial and commercial interests. The introduction of the clause of 'most favoured nation treatment' further made it clear that alongwith profit maximization, the British used the arm of the state to obtain security maximization. There is, therefore, no basis for the assertion that British capital was more adventurous than Indian capital.

The British rule was a long story of the systematic exploitation by an imperialistic government of a people whom they had enslaved by their policy of divide and rule. The benefits of British rule were only incidental, if any. The main motive of all British policies was to serve the interests of England. Thus, in 1947 when the British transferred power to India, we inherited a crippled economy with a stagnant agriculture and a peasantry steeped in poverty. As Jawaharlal Nehru put it: "India was under an industrial capitalist regime, but here economy was largely that of the procapitalist period, minus many of the wealth-producing elements of that pre-capitalist economy. She became a passive agent of modern industrial capitalism suffering all its ills and with hardly any of its advantages."[12]

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12. Jawaharlal Nehru, ***Discovery of India***, p. 299.

CHAPTER

3

NATIONAL INCOME OF INDIA

"National Income statistics provide a wide view of the country's entire economy, as well as of the various groups in the population who participate as producers and income receivers, and that, if available over a substantial period, they reveal clearly the basic changes in the country's economy in the past and suggest, if not fully reveal, trends for the future".

– National Income Committee (1951)

1. NATIONAL INCOME ESTIMATES IN INDIA

According to the National Income Committee, "A national income estimate measures the volume of commodities and services turned out during a given period, counted without duplication."[1] Thus, a total of national income measures the flow of goods and services in an economy. National Income is a flow and not a stock. As contrasted with national wealth which measures the stock of commodities held by the nationals of a country at a point of time, national income measures the productive power of an economy in a given period to turn out goods and services for the satisfaction of human wants.

Pre-independence Period Estimates

Several estimates of national income were prepared in the British period. Notable among the estimators were: Dadabhai Naoroji (1868), William Digby (1899), Findlay Shirras (1911, 1922 and 1931), Shah and Khambatta (1921), V.K.R.V. Rao (1925-29 and 1931-32) and R.C. Desai (1931-40).

In the pre-independence estimates, Dadabhai Naoroji, Shah and Khambatta, Findlay Shirras, Wadia and Joshi estimated the value of the output of the agricultural sector and then added a certain percentage as the income of the non-agricultural sector. The assumptions of most of these estimators were arbitrary and hence devoid of any scientific basis. Dr. V.K.R.V. Rao made use of a combination of census of output and census of income methods. He divided the economy of India into two categories. In the first category were included agriculture, pastures, mines, forests, fishing and hunting. Output method was to be used to evaluate the product derived from these sectors. In the second category were included industry, trade, transport, public services and administration, professions, liberal arts and domestic service. For these occupations, census of income method was used. To these two sub-totals was added the income from house property and other items which could not be covered under the above categories. From the gross aggregate income so obtained were excluded the values of goods and services consumed in the process of production. By adding the net income earned from abroad, an estimate of national income was computed.

Most of these estimates were the results of the efforts of individuals and as such they suffered from serious limitations. The arbitrary assumptions of the authors

1. Government of India, ***First Report of the National Income Committee,*** April 1951, p. 6.

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undermined the reliability of the estimates. Besides, these estimates were based on statistics from the agricultural sector which were highly undependable.

J.R. Hicks, M. Mukherjee and S.K. Ghosh calculated the rates of growth of per capita income for the period 1860-1945 at 1970-71 prices. Their findings are as under:

Table 1: Growth Rates of Per Capita Income during 1860-1950

Time period	*Rate of growth*
1860–1885	1.1
1885–1905	–0.3
1905–1925	1.3
1925–1950	–0.1
1860–1945	0.5

Obviously the Indian economy during the British rule presents a picture of near stagnation over a long period with a growth rate of 0.5 per cent for 1860-1945. Hicks and others conclude: "The low growth rate during the pre-independence years seems to owe its origin to the decline in per capita income between 1885 and 1905 and between 1925 and 1950. Occasional periods of stagnation are noticeable, for instance, the periods 1860 to 1865 and 1930 to 1935, and 1945 to 1951. etc."[2]

Post-independence Period Estimates

Soon after Independence, the Government of India appointed the National Income Committee in August, 1949, so as to compile authoritative estimates of national income. The Committee consisted of Professor P.C. Mahalanobis, Professor D.R. Gadgil and Professor V.K.R.V. Rao. The final report of the National Income Committee appeared in 1954. The report was a landmark in the history of this country because for the first time, it provided comprehensive data of national income for the whole of India. The principal features of the National Income Committee report were as under :

1. During 1950-51, agriculture which also included animal husbandry, forestry and fisheries contributed nearly half of the national income.

2. Mining, manufacturing and hand trades contributed about one-sixth of the total income.

3. Commerce, transport and communications accounted for a little more than one-sixth of the total national income.

4. Other services such as professions and liberal arts, administrative services, domestic services, house property accounted for about 15 per cent of national income.

5. The share of commodity production was about two-third of the national income. The term commodity production includes material production derived from agriculture, mining, factory establishments, hand trades, etc.

6. Services accounted for about one-third of total national income. Services sector includes commerce, transport and communications, administrative services, liberal arts, domestic services etc.

7. The share of the government sector in net domestic product was 7.6 per cent in 1950-51. Along with it, the share of the government in national expenditure was 8.2 per cent.

8. The margin of error in the calculation of national income estimates worked out at about 10 per cent.

National Income Committee and C.S.O. Estimates

For the post-independence period, we have five series in national income estimates.

(1) *Conventional Series* provided national income data at current prices and at 1948-49 prices for the period 1948-49 to 1964-65.

The conventional series divided the economy into 13 sectors. Income from six sectors i.e., agriculture, animal husbandry, forestry, fishery, mining and factory establishments is calculated by the output method and income from the remaining seven sectors, i.e., small enterprises, organised banking and insurance, commerce and transport, professions, liberal arts and domestic service, public authorities, house property and rest of the world is computed by census of income method.

Net Output Method. In agriculture, the output of each crop is estimated by multiplying the area sown by the yield per hectare. For obtaining the average yield crop cutting experiments were conducted. From the gross value of output so obtained, deductions for the cost of seed, manures and fertilisers, market charges, repairs and depreciation are made so as to derive net value of the product from agriculture.

For animal husbandry, forestry, fishery, mining and factory establishments, estimates of production are multiplied with market price so as to obtain the gross value of the output. From the gross value of output deductions are made for cost of materials used in the process of production and depreciation charges etc. to obtain net value added of each sector.

Net Income Method. In order to obtain the contribution of small enterprises an estimate for the total number of workers employed in different occupations classified under small enterprises is prepared. On the basis of sample surveys, the average earnings per head are obtained. By multiplying the total number of persons employed with the average earnings per head, the contri-

2. J.R. Hicks, M. Mukherjee and S.K. Ghosh, (1984) ***The Framework of Indian Economy*** p. 217.

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bution of small enterprises is estimated. To provide for factor payments other than wages and salaries, an addition of 20 per cent to the money earnings is made.

For Banking and Insurance the balance sheets of the firms provide the requisite information. Wages, salaries, directors' fees and dividends (distributed and undistributed) are all added to get the net contribution of the sector.

For commerce and transport and for professions, liberal arts and domestic services, the procedure is the same as for small enterprises.

For public sector, wages, salaries, pensions, other benefits, dividends or surplus, etc., are added up to arrive at the contribution of the public sector. To this is added the contribution of government construction and this gives the total contribution of the public sector.

The contribution of house property to national income is worked by estimating the imputed net rental of all houses--urban and rural.

An examination of the sector-wise estimates indicates that only about 60 per cent of the estimate of NDP for a particular year depends on direct information relating to that year, the estimate for the remaining 40 per cent is obtained, according to late Professor VKRV Rao, through indirect approaches, involving intrapolation of bench-mark information.

By adding up the contribution of all sectors to national income, an estimate of the net domestic product at factor cost is obtained. To this is added the net income from abroad and net indirect taxes to arrive at the estimate of net national income at current prices. This estimate is deflated at the prices of base year chosen to obtain a series of national income at constant prices.

(2) ***National Income Series at 1960-61 Prices.*** This series provided national income data at current prices and at 1960-61 prices for the period 1960-61 to 1975-76.

Another series was started with 1970-71 as base year instead of 1960-61.

Estimates based on different base years indicate differences in magnitudes, even when they are deflated at constant prices either at 1948-49 or 1960-61 or 1970-71 prices. This is due to the differences in weights used for the series.

The Central Statistical Organisation (CSO) brought out another Series on national income with 1980-81 as base year in place of the series with 1970-71 as the base year.

2. CSO REVISED NATIONAL INCOME SERIES WITH 1999-00 AS BASE YEAR

The Central Statistical Organisation (CSO) has revised the existing series of national accounts with 1993-94 as the base year with a new series with 1999-00 as the base year. Besides shifting the base year, the New Series incorporates improvements in terms of coverage and to the extent possible, the recommendations of the United Nations System of National Accounts, 1993 (1993 UNSNA) have been incorporated.

The improvements in terms of coverage are the following:

(*a*) Inclusion of production of salt through sea water evaporation and the production of betel leaf, toddy, goat, buffalo and camel milk, duck eggs and meat production from unregistered slaughtering.

(*b*) Expenditure made on few tree crops during the gestation period and setting up of wind energy systems are included in the estimates of output of construction sector.

(*c*) A new category of 'valuables' has been included in the gross capital formation, in line with the recommendations of 1993 UNSNA.

(*d*) Economic activities of other communication, renting of machinery and other equipment without operator, computer related activities in unorganized segment, coaching centres, social work with accommodation, recreational and cultural activities have been included.

Table 2: GDP at Constant 1999-00 Prices

(₹ crores)

Year	*New Series (Base Year 1999-00)*	*Old Series (Base year 1993-94)*	*Growth Rates*	
			New Series	*Old Series*
1999-00	17,92,292	11,48,367	–	
2000-01`	18,70,387	11,98,592	4.4	4.4
2001-02	19,78,055	12,67,945	5.8	5.8
2002-03	20,52,586	13,18,362	3.8	4.0
2003-04	22,26,041	14,30,548	8.5	8.5
2004-05	23,93,671	15,29,408	7.5	6.9

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As a consequence of the widening coverage, the increase in the levels of GDP estimates ranges form zero to 0.6 per cent during 1999-2000 to 2004-05.

From the data provided in Table 2, it becomes obvious that there is very little change in growth rates between new series and old series. Change is due to coverage and procedural changes which justifies a revision.

Table 3 provides information about Gross Domestic Product by industrial origin. It may be noted that share of agriculture including mining in GDP which was 27.3 per cent in 1999-00 declined to 15.8 per cent in 2013-14. But the share of secondary sector (Manufacturing, Electricity, gas and water supply and Construction) has indicated a marginal increase from 23.0 per cent to 24.3 per cent during the 14 years. But the share of services has gone up form 49.7 per cent in 1999-00 to 59.9 per cent in 2013-14. This implies that the service sector is the principal driver of GDP.

Another feature that needs special attention is that the share of manufacturing has practically remained static around 15-16 per cent. This is considered as the main weakness of our growth process. India, without going through the process of industrialization, has jumped to the post-industrial stage. Several economists are of the view that the growth process should pay special attention to manufacturing so that it reaches a level of 20-25 per cent in about a decade.

3. TRENDS IN NATIONAL INCOME GROWTH AND STRUCTURE

In order to understand the impact of planning in India, a study of trends in national income is necessary. It would be, therefore, better if the trend in national income and changes in the structure of national product are analysed over the last 57 years of planning.

(i) Trends in net national product and per capita income

Figures of national and per capita income are collected at current prices. But figures of national income at current prices do not give a correct picture about the growth of the economy, for the increase in national income at current prices reflects the combined influence of two factors viz., (a) the increase in the production of real goods and services and (b) the rise in prices. If the increase in national income is due to the first factor, it is an indicator of real growth because it implies that more goods and services become available to the people. If it is due to the second factor, it represents an unreal inflation of national income in money terms. Consequently, national income figures are deflated at constant prices to eliminate the effect of any change of price level during the period. National income figures at constant prices, therefore, become comparable, but they conceal the population effect. To eliminate the effect of growth of population, per capita

Table 3: Gross Domestic Product by Industry

₹ crores at 2004-05 prices

Sector	2003-04*	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 (PE)*
1. Agricultural, forestry & fishing, Mining and quarrying	5,31,302 (23.9)	7,64,817 (16.9)	8,28,431 (16.8)	8,64,557 (16.5)	8,72,838 (15.9)	90,73,86 (15.8)	18,65,913 (19.0)
2. Manufacturing, Construction, electricity, gas and water supply	5,19,322 (23.4)	11,73,089 (26.0)	12,62,722 (25.7)	13,69,932 (26.1)	13,86,593 (25.3)	13,93,387 (24.3)	28,00,114 (28.5)
3. Trade, hotels, transport and communications	5,56,370 (25.0)	11,97,891 (26.5)	13,44,024 (27.3)	14,06,261 (26.8)	14,73,353 (26.9)	15,17,826 (26.4)	19,04,200 (19.4)
4. Financing, insurance, Real estate and business services	2,97,250 (13.4)	7,71,905 (17.1)	8,49,189 (17.3)	9,45,534 (18.0)	10,48,748 (19.1)	11,83,714 (20.6)	20,15,912 (20.5)
5. Public administration & defence and other services	3,18,514 (14.3)	6,08,369 (13.5)	6,34,767 (12.9)	6,65,246 (12.7)	7,00,579 (12.8)	7,39,477 (12.9)	12,40,950 (12.6)
6. **Gross Domestic Product at factor cost**	**22,22,758 (100.0)**	**29,71,464 (100.0)**	**49,18,553 (100.0)**	**54,47,530 (100.0)**	**54,82,111 (100.0)**	**57,41,791 (100.0)**	**98,27,089 (100.0)**

Note: Figures in brackets are percentage of total GDP for the respective year.
Source: Central Statistical Organisation
*at 1999-00 prices, RE (Revised Estimates), PE (Provisional Estimates)
Central Statistics Office, Government of India, Press Note on Provisional Estimates of Annual National Income 2014-15, May 29, 2015, New series (Base 2011-12)

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national product or per capita income is calculated. Whereas the growth of the net national product at constant prices is an index of the total productive effort on the part of the community and indicates the rate of growth of goods and services in the economy, the growth of per capita income at constant prices is an indicator of the change in the standard of living of the people.

CSO has provided a series of national income data at 1999-00 from 1950-51 to 2007-08. Although this indicates slightly different growth rates for different period, but this was inevitable because of coverage and a change is procedure.

From the data given in Table 4, it is revealed that during the 30-year period (1950-51 to 1980-81), the annual rate of growth of national income (1999-00 = 100) was of the order of 3.5 per cent and that of per capita income was merely 1.4 per cent. Calculated at current prices, the annual rate of growth of net national product was of the order of 9.0 per cent and that of per capita income was 6.7 per cent. But much of this increase in NNP at current prices is only illusory because it indicates a monetary increase consequent upon a sharp increase in prices, more especially during the period following the Third Plan.

A further break-up of the data into three periods reveals that during the first 10 years of planning (1950-51 to 1960-61), net national product increased at the annual rate of 4.2 per cent and the performance of the economy has been on the decline thereafter. During 1960-61 and 1970-71, the rate of growth of NNP came down to 3.5 per cent and that of per capita NNP to 1.2 per cent per annum. In the subsequent 10-year period (1970-71 to 1980-81), the rate of growth of NNP was 2.9 per cent and that of per capita NNP slumped to 0.6 per cent per annum.

There was a very perceptible improvement in growth rate during the eighties. During 1980-81 and 1990-91, net national product showed a growth rate of 5.2 per cent per annum and the per capita NNP (at 1999-00 prices) improved on an average by 3.0 per cent per annum. This is a very healthy development because the economy was able to cross the barrier of the Hindu rate of growth, to use the phrase of late Professor Raj Krishna. During 1990-91 to 2000-01, the annual average rate of growth of net national product (at 1999-00 prices) was just of the order of 5.5 per cent per annum and that of NNP per capita was 3.4 per cent. During the two decades (1980-81 and 2000-01), the average annual growth of NNP was 5.6 per cent and that of per capita NNP was 3.2 per cent. It implies that the economy has performed better during these two decades as compared with the earlier three decades.

During 2000-01 and 2004-05, NNP growth rate accelerated to 6.4 per cent and per capita NNP grew at the rate of 4.7 per cent per annum (at 1999-00 prices). During 2004-05 and 2010-11 we find further acceleration in the NNP growth rate to 8.5 per cent and that of percapita income to 7.0 per cent. (at 2004-05 prices). After 2010-11, we find deceleration in growth. A new series of national income has also started since 2011-12. We find growth of NNP decelerating to 6.3 per cent from 8.5 per cent between 2004-05 and 2010-11. Likewise growth of per capita income decelerated to 4.8 per cent during this period.

Table 4: Net National Product at Factor Cost and Per Capita NNP

	NNP (₹ crores)	*Per capita NNP (₹)*	*NNP (₹ crores)*	*Per Capita NNP (₹)*
	At 1999-00 prices		**At Current Prices**	
1950-51	204,924	5,708	9,152	255
1960-61	3,09,045	7,121	15,593	359
1970-71	4,37,719	8,091	40,135	742
1980-81	5,83,548	8,594	1,21,129	1,784
1990-91	9,67,773	11,535	4,56,409	5,440
2000-01	16,47,903	16,172	17,00,467	16,688
2001-02	17,43,466	16,764	18,49,360	17,782
2004-05	21,04,520	19,325	25,26,408	23,199
	At 2004-05 prices		**At Current Prices**	
2004-05	26,23,995	24,095	26,23,995	24,095
2005-06	28,72,212	25,969	30,06,469	27,133
2006-07	31,49,912	28,074	34,87,172	31,080
2007-08	34,49,970	30,316	40,31,881	35,430
2008-09	36,69,890	31,801	46,85,873	40,605
2009-10	39,59,653	33,843	53,95,688	46,117
2010-11	42,93,585	36,202	64,06,834	54,021
	At 2011-12 prices		**At Current Prices**	
2011-12	78,46,531	64,316	78,46,531	64,316
2012-13	81,93,427	66,344	88,41,733	71,593
2013-14	87,51,834	69,959	1,00,56,523	80,388
2014-15	93,88,992	74,104	1,11,17,615	87,748
Rates of Growth				
1950-51 to 1960-61	4.2	2.3	5.5	3.2
1960-61 to 1970-71	3.5	1.2	9.9	7.5
1970-71 to 1980-81	2.9	0.6	11.7	9.2
1980-81 to 1990-91	5.2	3.0	14.2	11.8
1990-91 to 2000-01	5.5	3.4	14.0	11.9
2000-01 to 2004-05	7.5	5.9	12.4	10.7
1950-51 to 1980-81	3.5	1.4	9.0	6.7
1980-81 to 2000-01	5.6	3.2	14.1	11.8
2000-01 to 2004-05	6.4	4.7	10.5	3.6
2004-05 to 2010-11	8.5	7.0	16.0	14.4
2011-12 to 2014-15	6.3	4.8	12.4	10.9

Source: Compiled and computed from data given in ***Economic Survey*** (2013-14), CSO National Accounts Statistics, 2011 Press Note: Provisonal estimates of National Income 2014-15, 29th May 2015.

(ii) Annual Growth Rates During the Plans

During the First Plan, annual average growth rate of NNP was 4.4 per cent (at 1999-00 prices), which to declined 3.8 per cent during the Second Plan. However, during the Third Plan, annual average increase in national income slumped down to 2.6 per cent which was just sufficient to neutralize the growth of population. This is indicated by the fact that there was 0.4 rate of growth of per capita income during the Third Plan. This was largely the consequence of a serious drought in 1965-66 and thus the growth rate got depressed. This was followed by another drought year as also a business recession. After 1967-68 the economy started picking up and the growth rate showed signs of improvement.

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