Indira Gandhi
National Open University
School of Social Sciences

BECE-002
Indian Economic Development: Issues and Perspectives

Block

1

APPROACHES TO DEVELOPMENT

Course Editor

Dr. V.R. Panchamukhi
Managing Editor
Indian Economic Journal
New Delhi

Course Coordinator

Dr. B.S. Prakash
School of Social Sciences
IGNOU
New Delhi

Block Coordinator

Dr. B.S. Prakash
School of Social Sciences
IGNOU
New Delhi

Block Preparation Team

Unit No.	Unit Writer	Unit Editor
1,2,3,4	Prof. D. Narasimha Reddy	Dr. B.S. Prakash

Material Production

Mr. Arvind Kumar
Mr. Sunil Kumar

Cover Design

HD Computer Craft

January, 2009

ISBN-81-

Further information on the Indira Gandhi National Open University courses may be obtained from the university's office at Maidan Garhi, New Delhi-110 068.

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi, by Director, School of Social Sciences.

Laser typeset by : HD Computer Craft, WZ 34A, Lajwanti Garden, New Delhi-110046.

Printed at :

BLOCK 1 APPROACHES TO DEVELOPMENT

Block Introduction

The perspectives on development have undergone changes over the last six decades of planning in India. The changes have been guided by the domestic priority of the times and the global economic trends. In the process, the Indian planning system has derived from the contributions of many thinkers and leaders of both the pre-independence and the post-independence periods. The result is a change in the thrust of the different approaches pursued. The block introduces the learners to these aspects over four units as follows.

Unit 1 begins by providing a distinction between growth and development. Different approaches to development like market-based approach and mixed economy approach, along with the concept of inclusive growth are explained. The two basic strategies of trade viz. the export oriented approach and the import substituting approach are also described. The unit includes an outline of select concerns of development and the new developmental challenges facing the country in the present times.

Unit 2 presents the contribution to developmental planning by a select group of vintage thinkers. The contributions are classified into broad themes like: Development and Welfare, Development and Social Justice, Models of Development Planning and Alternatives to Western Models. It also includes an account on Ancient Indian Thoughts on Development as A Contrast to the Modern Economic Thinking.

Unit 3 provides an account of growth and structural change in India. The structural change that has come about over the last six decades is pointed out to differ from the experiences of the developed countries. In the light of increasing share of service sector in output which has grown faster than that of the industrial sector, and an overwhelming number of workers continuing to be engaged in agriculture, the unit raises the question of whether such development is sustainable in the long run?

Unit 4 presents a profile of changing policies and strategies of development in the era of planning starting from the First to the Eleventh Plan periods. In particular, the emphasis of the Nehru-Mahalanobis framework during the early phases of planning, partial liberalisation of the economy during the 1980s, and the major policy shift of 1990s to a more substantial role for the market driven growth path are discussed. As the market driven approach inevitably leads to adverse effects of social exclusion, a need for correctives by way of regulatory institutions to ensure considerations of equity and social justice are emphasised.

COURSE INTRODUCTION

The course on *Indian Economic Development: Issues and Perspectives* provides the essentials of understanding the developmental challenges faced by India during the six decades of its experience in economic planning. Besides providing with the required historical perspective of the challenges faced, to the extent that it is important to have an appreciation of the difficulties experienced in the earlier years, it especially focuses on the challenges being faced in the current times. The course consists of seven blocks spread over a total of 28 units. The block-wise focus in terms of their themes are as follows: Approaches to Development, Resources for Development, Fiscal and Monetary Issues, Agricultural Sector, Industry and Services Sector, External Sector and Social Aspects of Development. A brief outline of the contents of each block is as follows.

Block 1 on ***Approaches to Development*** consists of four units. **Unit 1** on *Alternative Paradigms of Development* discusses the different approaches to development like: market based approach, mixed economy approach, wage goods approach, export oriented approach, import substitution approach, etc. Different focus areas of development like social development and sustainable development are also discussed in this unit. **Unit 2** on *Thoughts on Development of Select Vintage Thinkers* provides an outline of the ideas and contributions of important thinkers of both the pre-independence and post-independence period to the foundation of Indian developmental planning. *Growth and Structural Changes* that have come about in the Indian economy over the period 1950-2006/07 are discussed in **Unit 3**. The importance of *Planning, Governance and Institutions*, with a focus on a review of policies and strategies of development, along with issues of governance like bureaucracy, corruption, public-private partnership, etc. are discussed in **Unit 4**.

Block 2 is on ***Resources for Development***. The block consists of four units. The first unit, **Unit 5**, focuses on *Monetary and Financial Resources*. Various aspects of finance like savings, investment, developments in banking sector and capital markets, finance commissions, federalism in resource linkage, etc. are discussed in this unit. **Unit 6** deals with *Physical, Natural and Environmental Resources* while **Unit 7** focuses on *Demographic Features*. In view of the importance of data sources in planning and development, **Unit 8** on *National Statistical System* provides an account of major data sources in the country.

Block 3 is devoted to ***Fiscal and Monetary Issues***. The block consists of four units. **Unit 9** on *Monetary Policy*, discusses various aspects like Indian financial system, foreign exchange management Act, mutual funds, venture capital, etc. **Unit 10** is on *Fiscal Federalism*. Issues of revenue sharing between the various tiers of government viz. central, state, local governments, problems of fiscal imbalances and methods of fiscal adjustment are discussed in this unit. **Unit 11** on *Taxation and Expenditure in India* discusses the trends in tax revenue, growth of public debt, and issues of budget deficits. The last unit of the block (**Unit 12)** on *Fiscal Reforms* discusses the issues of reforms in taxation and expenditure, rationalisation of subsidies, measures to reduce budget deficits, and the need for establishing a balance between budget outlays and outcomes.

The next two blocks in the course are respectively focussed on the Agricultural and the 'Industry and Services' Sectors. **Block 4** on ***Agricultural Sector*** consists of three units. **Unit 13,** on *Phases in Agricultural Development*, presents the developments in the agricultural sector, distributed over three phases viz. traditional agriculture (phase I), technologically dynamic agriculture with low capital intensity (phase II), and technologically dynamic agriculture with high capital intensity (phase III). **Unit 14** is on *Impact of Green Revolution*. In the light of the fact that the approach adopted for attaining Green Revolution requires a new thrust to take on the challenges of the present times, this unit outlines the approach for a 'new strategy' to provide the required boost for the agricultural sector. **Unit 15** on *Agriculture, Productivity and Farmer's Welfare*, discusses issues of current debate like GM seeds, organic/contract farming, futures trading, farmers' distress, crop insurance, trade in agriculture, etc.

Block 5 on ***Industry and Services Sector*** has four units. **Unit 16** is on *Industrial Policy and Strategy*. The approach to industrial development as set out in the early stages of planning, the industrial policy developments in the reforms period during the 1990s, and the recent push to industrial expansion under the SEZ policy are discussed in this unit. **Unit 17** focuses on *Industrial Growth and Structure* in an analytical manner. **Unit 18** on *Foreign Investment* deals, among other things, with the importance of foreign investment to economic growth. The growth of *Services Sector*, and its constituents, which has come to dominate the Indian economy in the recent years is discussed in **Unit 19**.

Block 6 is on ***External Sector***. It consists of four units. **Unit 20** on *Trade and Development* provides a theoretical outline on the alternative frameworks of trade policy, and discusses issues like free trade versus protection, trade policies and strategy, export subsidies and WTO, etc. The exports and import dimensions of trade in terms of their volume, composition and direction along with the issues of balance of payments and exchange rate regime are discussed in the unit on *Empirical Aspects of Trade and Balance of Payments* (**Unit 21)**. **Unit 22** focuses on *Regional Trading Arrangements (RTAs)*. Besides discussing the features, benefits and limitations of RTAs, the unit outlines the objectives and status of major regional trading formations like ASEAN, AFTA, APEC, SAARC, SAPTA, etc. *WTO and Challenges of New Trading and Financial Systems* is the focus of **Unit 23**. After discussing the different aspects of WTO, this unit presents the contours of a New International Financial Architecture considered vitally needed in the light of current crisis faced by the global economies.

The last block (**Block 7**) of the course is on ***Social Aspects of Development***. It consists of 4 units. **Unit 24** on ***Education and Health*** discusses the issues and policies of education and health in the context of the targets set in the Millennium Development Goals. **Unit 25** focuses on *Labour and Employment*. Issues of labour force structure, measurement of employment, labour reforms, etc. are discussed in this unit. *Gender Issues of Development* (**Unit 26**) deals with issues of maternal health, female literacy, sex ratio, women empowerment, panchayati raj institutions, self help groups and micro finance. The theme of *Water and Development* (**Unit 27**) discusses the criticality of water as a source of livelihood and sustainable development.

Block 7 includes a post-script unit (**Unit 28)** on *Global Economic Crisis.* The addition of this unit is necessitated due to the rapid developments world over in the past few months. Though included in Block 7, it is clearly outside the theme of the block. It apprises the learners with the origin of the recent global economic crisis analysing its impact on the Indian economy. It spells out the kind of policy action needed at this crucial juncture of economic recession.

UNIT 1 ALTERNATIVE PARADIGMS OF DEVELOPMENT

Structure

1.0 OBJECTIVES

After reading the unit you will be in a position to:

- distinguish between growth and development;
- discuss the various institutional approaches to development;
- explain the implications of different trade strategies in the context of domestic structural changes and the process of globalisation; and

- discuss the major concerns and challenges of development with a perspective on current developmental paradigms.

1.1 INTRODUCTION

Approaches to development is a subject that interests not only students of Economics but also of other social science disciplines. It is also of concern to politicians and policymakers. While it can be an exciting subject for these reasons, it can also be frustrating for the reason that there is often no consensus on what exactly should be its boundaries. In view of this, the present unit discusses some of those aspects of development on which there is a reasonable consensus. Beginning with providing a distinction between growth and development, the unit dwells on the debate of 'why growth alone is not enough'?. The section on 'approaches to development' then relates the alternative paradigms of development to the concept of 'structural adjustment' in the reforms context. An account of concerns and challenges of development (e.g. poverty, inequality, unemployment and regional disparities) exposes the readers to the persisting problems of development planning in India. Some new dimensions of development like human development and sustainable development are also discussed in the unit.

1.2 DISTINCTION BETWEEN GROWTH AND DEVELOPMENT

The terms 'growth' and 'development' are usually used to mean the same thing. Growth and development are usually indicated in terms of per capita Gross Domestic Product (GDP) or simply, per capita income. A growth in the per capita GDP is supposed to contribute to a rise in the standard of living of the people in general.

But in a strict sense 'growth' and 'development' do not mean the same. To appreciate the complexity of problems associated with development, it is necessary to understand the difference between 'growth' and 'development'. First, 'growth' refers to increase in per capita GDP, which is measured in terms of annual changes and is a short-term phenomenon. 'Development' refers to long-term aspects of the changes in per capita income. Second, growth focuses on the end product of the economic activity viz. per capita income. Development refers not only to change in per capita income but also the accompanying processes of structural changes. That is why growth is referred to as a narrow concept while development is a broader one. Development is growth-plus something more which cannot be captured by changes in per capita income alone.

Third, growth, based on per capita income, is an 'average' measure derived by dividing the total national income by the total population. One can increase growth of per capita income by reducing the growth rate of population! That is not development. Since per capita income is an 'average', its mere growth does not necessarily indicate people are becoming better. A small proportion among population i.e. the rich may be becoming richer and a large proportion i.e. the poor may not be gaining in any way. Distribution of income resulting from growth must therefore be taken into account before something can be said definitively about the general level of development.

Fourth, growth measured in per capita income terms is an accounting entity. It is based on market valuation, which often underestimates non-market activities which make significant contribution to development. Fifth, growth, measured in terms of changes in per capita income would tell us what one has but does not tell us what one gets out of it. This is where people's capabilities make a difference to development which growth, in terms of per capita income, cannot explain.

Finally, in the context of global change, there is growing concern for development that is sustainable. Growth in per capita income is often associated with negative effects of depletion of non-renewable resources and pollution of environment. In other words, growth does not reveal these negative effects on development.

The message that growth alone is not desirable has been conveyed by the UNDP Human Development Report, of 1990's, in the following manner. We should avoid the following five types of growth processes: (1) Jobless growth, implying a growth process which does not create additional jobs or which reduce the existing job opportunities; (2) Ruthless growth, implying a growth profile, which aggravates inequalities in the system; (3) Futureless growth, implying a growth paradigm, which creates non sustainability, through environmental degradation; (4) Voice less growth, implying a growth process, which does not improve the empowerment of the deprived sections of the society; and, finally (5) Rootless growth, implying a growth process which destroys the cultural roots and traditional life styles of the society.

The perception outlined in the above paragraph, brings out that focusing on growth alone could be detrimental to the goal of realising development in a comprehensive manner.

1.3 APPROACHES TO DEVELOPMENT

For achieving the goal of economic development, there are several approaches. The approaches require specific institutional framework within which economic activities are carried on. Broadly, the market and state are two broad institutions which are expected to facilitate economic activities. What follows is a description of approaches to development which involve state and market in different degrees.

1.3.1 Market Based Approach

Under conditions of well developed perfectly competitive markets, resources are used optimally by minimising the costs and maximising profits. Price signals, including the profits, serve as incentive to investment for achieving faster growth. Therefore, ideally, perfectly functioning markets without any intervention are seen as a strategy for faster accumulation and growth. But, in the post-II world war era, when most of the former colonies which became independent and embarked upon the process of development, these countries faced serious gaps in markets as they were underdeveloped in many of these economies. The absence of markets was particularly conspicuous in the 'subsistence segments'. There were several areas of development of public goods for which there was no market but there was a pressing public need. Therefore, most of these underdeveloped countries turned to the state as an essential requirement for development process.

1.3.2 Role of State and Planning

Early writers on development emphasised the need for a major role for the state in the production process. In underdeveloped countries with subsistence agriculture, weak industrialisation, poor infrastructure, vast underemployment, low income, savings and investment, the need was for a big push in investment. With low savings and poor state of development of markets, there was neither incentive nor ability for the private sector to undertake the investment role. Hence, the need arose for the state to intervene for planned investment in a big way spread not only over industry and infrastructure sectors, but also in transforming subsistence agriculture to higher productivity agriculture by investing in irrigation infrastructure, agricultural Research and development, as also in the agricultural extension services. Thus, in India for instance, at least up to 1991, the public sector, assumed growing importance for providing accelerated growth in core sectors of the economy. These core sectors included railways, power, telecommunications, roads and shipping, and investing though moderately, in the social sectors like education and health. The protagonists for state intervention were pessimistic about the market's ability to deliver the desired economic change in key sectors, which in their view could be achieved through planned mobilisation and allocation of resources to the public sector.

More recently, however, public sector has fallen out of policy grace on the grounds of state intervention generating red-tapism, corruption (rent-seeking), inefficiency and losses. Based on these arguments, there has been a tendency towards reducing the role of the state. There are still those who argue that state's role should not be minimal particularly in the areas of health, education, infrastructure, and providing the right environment for entrepreneurial activity to flourish.

1.3.3 Mixed Economy Approach

Mixed-economy brings together the state and the market as a framework for approach to development. It involves co-existence of private enterprise side by side with public enterprise. The mixed economy combines the salient features of capitalism and socialism. Capitalist enterprises with self-interest and profit motive operate in a number of activities. Side by side, public sector production, not with profit motive, but with larger social interest operate in production as well as social sectors. India is regarded as a good example of mixed economy. The Directive Principles of State Policy of the Indian Constitution states that the State shall direct its policy to secure better distribution of ownership and control of the material resources of the community and prevent concentration of wealth in the hands of a few. This obligation brings the state into the fields of production and distribution. The planned development approach in India is also premised on a mixed-economy model with the coexistence of public and private sectors whose respective role is demarcated by the state. Initially, primary role in planned development was accorded to public sector and the private sector was to supplement the efforts of the public sector.

Since the introduction of economic reforms in 1991, there has been substantial expansion of economic space of private sector and its contraction for the public sector. Private sector has come to dominate almost all sectors of the economy often calling into question the Constitutional primacy accorded to the state in the Indian economy. Thus, the substance of mixed-economy approach in India has moved from a state with the control of commanding heights of the economy to a state with a very diminutive role leaving the commanding heights to the market.

1.3.4 Inclusive Growth

'Inclusive growth' appears as an official development strategy for the first time in India in the 'Approach Paper' of the Eleventh Five Year Plan. However, the concept of 'growth with justice' or 'growth with equity' has been part of the planning strategy in India. The basic premise for 'growth with justice' (here emphasis is on distributional justice) has been that in an economy with gross disparities in wealth and assets, growth of national product without intervention would result in perpetuation of inequalities. Since besides growth, reduction in inequalities is one of the objectives of development, it has been considered necessary that the very growth strategy should involve appropriate institutional arrangements to ensure equitable distribution of the gains of growth. An institutional framework for growth with equitable distribution envisages a substantial role for state in the productive sectors as much as in the regulation of production and distribution.

The introduction of economic reforms meant structural adjustment from a predominant role of the state in the economy to growing importance of market forces. Market driven economic structure is likely to have more emphasis on growth and less on social equity. Hence, since the early phase of economic reforms there has been a call for 'structural adjustment with human face'; 'human face' referring to equity and increased empowerment. The experience of economic reforms in India has shown relatively high growth performance. But there has been slow rate of reduction in poverty, low levels of employment growth, increase in rural-urban disparities, inequalities across social groups, and regional disparities. Agriculture suffered neglect causing widespread distress among farmers. The rate of decline in infant mortality has slowed down in the reform period. The high growth rates reflecting the growth of services, information and communication technologies, foreign trade and foreign exchange reserves, financial markets etc. brought unprecedented prosperity to a small section. But a large segment of rural and informal India has been excluded from this prosperity. There has been social exclusion in terms of regions, social and marginal groups, women, minorities, and children.

It is, in this context, that the Approach Paper to the Eleventh Five Year Plan suggests moving 'Towards Faster and More Inclusive Growth'. It acknowledges that the economic growth has failed to be sufficiently inclusive, particularly after the mid-1990s. The Eleventh Plan aims at restructuring policies to achieve a more broad-based and inclusive growth.

Check your Progress – 1

1. What is the basic difference between growth and development?

   ....

   ....

   ....

   ....

2. What is the rationale for the role of state in an underdeveloped economy?

   ....

   ....

   ....

   ....

3. What is the place of distributional aspect in 'inclusive growth'?

   ....

   ....

....

....

1.4 ROLE OF TRADE AND STRATEGIES OF TRADE

Early thinking on development tended to equate 'industrialisation' as development and then focus on the role of trade in industrialisation. Trade, often, was referred to as engine of growth. This was largely on the basis of classical Ricardian inspiration that free trade served as the engine of industrial revolution in England. This is also essentially what is called as 'free trade' argument. There are two leading ideas here. Firstly, international trade overcomes the narrowness of the home market and provides an outlet for the surplus product above domestic requirements. Secondly, by widening the market, international trade improves the division of labour raising the general level of productivity within the country. But this is countered by the protectionist school by arguing that for underdeveloped countries which export raw materials and import manufactured goods, international trade has been unfavourable to these countries.

1.4.1 Export-Oriented Approach

The earlier version of export-oriented (outward-oriented) strategy of trade for development emphasised that developing countries' comparative advantage lay in highly specialised primary commodities. An open trade regime would result in each developing country's continued specialisation in a few primary commodities. The demand for these commodities are likely to be both price and income elastic. Increased export earnings and growing domestic demand would bring in investment and growth of domestic industry and the economy. It is argued that outward oriented economies are better to gain from trade because of specialisation that leads to the benefits of economies of scale, cost reduction by increased competition, etc. Further, increased competition because of open-trade breaks monopolies. Free trade also promotes flow of more direct foreign investment. To drive home the advantages of export or outward-oriented trade strategy, the example often cited is East Asia's (Singapore, Hong Kong, South Korea and Taiwan) free trade policy and growth success during the period of 1960s to 1980s.

1.4.2 Import Substituting Industrialisation

The policy of government intervention to protect domestic industrial production to replace imports has come to be known as 'import-substituting industrialisation', or ISI. An important rationale for this policy is the 'infant-industry argument'. In the face of competition from industrially developed countries, the nascent or new industries in developing countries may not develop. And imports of manufactured commodities from developed countries will continue. Therefore, it is argued that in the initial stages of industrialisation, state protection is necessary for the development of domestic industries in the developing countries. Starting infant industries for the production of commodities hitherto imported, by banning imports or imposing high tariffs on imports, has become one of the popular policies in many developing countries.

In 1960s, a further argument in favour of the ISI was added by the structuralist school headed by Raul Prebisch of Latin America. Based on trade data, he argued that in a free trade regime, developing countries were exporting primary commodities and importing manufactured goods. Because of inherent increase in the elasticity of demand for manufactured goods and declining elasticity of demand for primary products, the relative prices or the terms of trade of primary products deteriorated over the long run. It is argued that until developing countries develop their manufacturing sector, backwardness would persist. Therefore, domestic industrialisation by substituting imports by protection becomes necessary for the development of manufacturing sector in developing countries.

Further, ISI is also advocated for infant industry because industrialisation is also a learning process and in the initial stages much effort is needed to stabilise through trial-and-error. Import substitution under protection helps developing countries to go through the process of 'learning-by-doing'.

It is important to remember that the ISI or infant industry argument supports temporary policy to aid – import-competing manufacturing. Once the learning process is complete, government help by protection is no longer justified. However, in many countries, ISI has been used perpetually because of the pressures of inefficient domestic producers and growth of monopolies. The Indian automobile sector, until the recent liberalisation, was one such example of ISI promoted incompetence.

Even within the broad strategy of import substitution oriented strategy, there could be two types of policy approaches. First, import substitution in the framework of protection, accorded primarily, by tariff policies. Secondly, import substitution in the framework of protection to the domestic industry, through a mix of policy in quantitative controls and quotas for imports and high tariff rates. In India, we adopted the latter paradigm and thus created a plethora of rigid institutions for the implementation of the license-quota system. This had led to the creation of a high cost economy and created biases against export promotion. However, India has been liberalising her trade policy regime, since the early part of 1980s by gradually removing the import licensing system and adoption of tariff policies for domestic protection. Further, it was in the period after 1991, that comprehensive liberalisation of the import control regime has taken place and this has further strengthened the role of market and competition, both in the domestic production space as also in regard to the international trade regime. Further, with the emergence of a new global free trade regime, under the supervision of the World Trade Organisation, since 1995, India's approach to trade policy system has undergone radical shift towards free trade and export orientation.

Check your Progress – 2

1. Why did classical economists consider trade as the 'engine of growth'?

   ....

   ....

   ....

   ....

2. What is the rationale for Import Substituting Industrialisation (ISI) strategy?

   ....

   ....

   ....

   ....

3. What are the limitations of ISI strategy?

   ....

   ....

   ....

   ....

1.5 SELECT CONCERNS OF DEVELOPMENT

Approaches to development have brought into sharp focus certain issues which require special attention in the designing of appropriate strategies in developing countries. Poverty, inequality, unemployment and regional disparities have emerged as critical issues in development agenda.

1.5.1 Poverty

In the post World War-II period, when many erstwhile colonies became free, the topmost priority of the newly independent countries was to achieve rapid economic development with a view to ensuring decent levels of living to the people in these countries. Most of these countries adopted development strategies with overwhelming emphasis on growth of GDP and per capita income. Though many of these countries did achieve substantial improvements in their growth rates during 1960s and 1970s, there was persistence of high levels of poverty, inequality and unemployment or underemployment. Therefore, beginning with the 1970s, there was an attempt to place sharp focus on eradication of poverty along with achievement of high growth rates of GDP.

Poverty refers to the condition of people who are unable to meet out even their basic necessities of life. When a substantial section of a society is deprived of the minimum level of living and continues at a bare subsistence level, the society is said to be plagued with mass poverty. Frontal attack on poverty has become one of the challenges of development policy in all the developing countries.

Though in developed countries poverty is seen in 'relative' terms, in developing countries the concern is for 'absolute' poverty. Using monetary income or consumption to identify and measure 'absolute' poverty has a long tradition. One such early attempt was made in the late 19th century by S. Rowntree in the English City of York. In India, the debate on poverty issue was launched by Dadabhai Naoroji, through his famous *Drain Theory,* in the later part of the nineteenth century. The Drain theory advocated that Indian common man is left with very low per capita income, since most of the resources of the nation are *drained away* by the colonial power, viz. England, for the benefit of the British people.

The concerns of poverty, inequality, empowerment have prompted many nationalist thinkers of India, like Mahadev Govind Ranade, Gopal Krishna Gokhale and Mahatma Gandhi, to propound some alternative paradigms of development, that were best suited to the social, cultural, economic and political conditions of India. However, in practice, India has been adopting a mix of several conflicting paradigms of development, which are perhaps responsible for resulting in the unfortunate situation of poverty and inequalities, persisting for a long time.

The present estimates of poverty in several developing countries are inspired by this lead to household survey based income or consumption expenditure data. A key building block in developing income and consumption measures of poverty is the 'poverty line' – the critical cut off in income or consumption below which an individual or household is determined to be poor. A country-specific poverty line may need to be adjusted for different areas like urban and rural areas, if prices and access to goods and services differ. Once the poverty line is specified, then the extent of poverty is assessed by calculating the percentage of the population with income or consumption levels below the poverty line. This is called the 'headcount' measure of poverty and is by far the most commonly used measure of poverty. There are other poverty measures like 'the poverty gap' which takes into account the distance of poor people from poverty line, and 'the squared poverty gap' which is calculated by taking into account the degree of income or expenditure inequality among people.

1.5.2 Inequality

The relationship between growth and inequality of income has been of considerable concern in the development literature. One postulate that has received much attention is that as development process proceeds, income inequality first rises and then falls with development. A graphical representation of increase in per capita income on the 'X' axis representing economic development and a measure of inequality on the 'Y' axis would show a curve in the shape of an inverted 'U'. This has come to be called as inverted-U hypothesis of the relationship between growth of income and inequality, and is associated with Simon Kuznets. ***It is now famously called as 'Kuznets Curve'***. Kuznets observed falling inequality of incomes in some of the developed countries in the late 19th century. He visualised that inequality was falling after the early rise in the peak of industrialisation period. He reasoned that as these economies initially began their transformation from their dominant agricultural sector base to more of industrialisation and urbanisation, inequalities increased. But later, inequalities decreased as migration of people to urban areas (and their adaptation to political power structure leading to enactment of legislation in their interests), resulted in a rise in their incomes. It is Kuznets hypothesis that made many believe that higher inequality initially distributes more income to the rich, who as real savers and investors, propel faster growth.

However, recent evidence calls into question the proposition that inequality helps to generate rapid economic growth. The experience of what is called as the 'East Asian Miracle' economies such as Taiwan, South Korea, Hong Kong and Singapore, has shown that with a relatively equal distribution of income, very high rates of economic growth are possible. There is thus growing evidence that better distribution of income would result in faster growth. It is therefore argued that reducing inequality is necessary for greater economic prosperity in the long run.

In the case of India, particularly in the reform period, there has been increasing evidence of growing inequalities in levels of consumption, between urban and rural areas and between different states. ***One widely used measure of inequality is the gini coefficient.*** Beginning with the early 1990s, inequality in monthly per capita levels of consumption increased significantly for both rural and urban areas of Indian population. The rural monthly per capita income which was 66 per cent of urban monthly per capita income in 1983, declined to 61 per cent in 1993-94 and to 56 per cent in 2004-05. While there was high level of growth since early 1990s, the growth did not have adequate impact on the rate of reduction in poverty because of growing inequality in the distribution of income.

There is also gross disparity in the process of reduction of poverty among the states. In spite of overall reduction of poverty, some states still have very high levels of poverty. In 2004-05, the level of poverty in Orissa (47 per cent) was almost six times compared to that of Punjab (8 per cent). Just four States viz. Bihar, Uttar Pradesh, Madhya Pradesh and Orissa constitute 61 per cent (2004-05) of poor in the country. Between 1993-94 and 2004-05, the absolute number of rural poor actually increased in three states viz. Madhya Pradesh, Orissa and Uttar Pradesh.

The growing inequalities in terms of levels of consumption across rural-urban areas and across different regions is a serious cause for concern and is bound to have adverse effect on overall development.

1.5.3 Employment and Unemployment

In the development strategies one of the main objectives is generation of employment as a part of growth process. Unlike in the developed countries, unemployment is not open and unemployment estimates in developing countries are likely to be underestimates as underemployment, thin employment and low productivity employment are characteristic features in developing countries. Activities like subsistence agriculture and informal activities like weaving, petty trade, and casual services occupy most of the people in these economies.

Unemployment in India

Unemployment in India is measured in terms of three types of status viz. 'usual principal status' (US), 'current weekly status' (CWS), and 'current daily status' (CDS). 'Usual principal status' (US) unemployment refers to a person who did not find employment for substantial part of the year and is still seeking employment. Given the informal nature of the economy there will be very few who do not get any work in a year. The estimates of employment and unemployment under 'usual principal status' would therefore be underestimates of the problem. 'Current weekly status' (CWS) unemployment refers to persons who did not find even an hour of work in a day in the week of survey. The weekly status unemployment are thus likely to give a more realistic picture of unemployment. The US and CWS estimates refer to 'persons' who are employed or unemployed and provide us with estimates of rate or proportion of persons employed or unemployed. In contrast, the 'current daily status' (CDS) provides us data in terms of person-days. Under CDS, the employment or not employed at least for one hour in each of the reference week is taken into consideration. The ratio of employment or unemployment is calculated in terms of rate of person days, which is quite different from the rate of persons employed or unemployed. The Economic Survey (2007-08) observes that estimates based on daily status is the most inclusive rate of unemployment giving the average level of unemployment on a day during the survey year. It captures the unemployed days of the chronically unemployed, the unemployed days of usually employed who become intermittently unemployed during the reference week and unemployed days of those classified as employed according to the criterion of CWS. According to the CDS estimates, employment increased from 239.49 million in 1983 to 313.93 million in 1993-94 to 338.19 million in 1999-00 and 384.91 million in 2004-05. During the same period, the number of unemployed (unemployment rate) also increased from 20.27 million in 1993-94 (6.06%) to 26.68 million (7.31%) in 1999-00 to 34.74 million (8.28%) in 2004-05.

Nature of Employment in India

Employment in terms of working status is broadly divided into three categories viz. regular salaried, self-employment and casual employment. 'Regular salaried' employment indicates secure and stable employment with assured regular income. 'Self-employment' in the Indian context is largely in agriculture and other small petty economic activities. Most often, the conditions of work and earnings in self-employment are highly vulnerable and unstable. Those engaged in self-employment activities may not have any social security. With a very few exceptions like professional occupations, self-employment is often fraught with uncertain or meager returns, unless supported by adequate infrastructure and other social amenities like health and educational facilities to the dependent family members. 'Casual employment' is a kind of beck-and-call employment, with no regularity in employment, regular employer, adverse working conditions, uncertain wages and absence of any social security.

Development process is supposed to bring about shift of majority of workers from casual employment to self-employment and increasingly towards 'regular and salaried' employment. But, Table 1.1 shows that in India over the years there has been decline in 'self-employment' and increase in the share of 'casual employment', without hardly any increase in the share of 'regular and salaried' employment. There is thus an increasing tendency towards casualisation of employment, more so since the introduction of reforms in the 1990s.

Table 1.1: Distribution of Workers by Status of Employment (US)

Year	**Status of Employment**		
	Self-Employment	**Regular and Salaried**	**Casual**
1977-78	58.9	13.9	27.2
1983	57.4	13.9	28.7
1987-88	56.0	14.4	29.6
1993-94	54.8	13.2	32.0
1999-00	52.9	13.9	33.2

Source: *NSSO surveys.*

Check your Progress – 3

1. Why is increasing attention being paid to poverty in development strategy?

   ....

   ....

   ....

   ....

2. What does "Kuznets Curve" explain?

   ....

   ....

   ....

   ....

3. What is the dominant type and quality of employment in India? Why is it a cause for concern?

   ....

   ....

   ....

   ....

Organised and Unorganised Workers

A more revealing way of looking at the Indian workforce is on the basis of its division into 'organised' and 'unorganised' workers. 'Organised Workers' consist of those working in legally incorporated entities with regular salaries, having better working conditions and social security. In contrast, 'unorganised workers consist of those working in the unorganised enterprises or households' having characteristics opposite to what obtains for their organised counterpart i.e. they often do not have employment security, work security and social security. The National Commission for Employment in Unorganised Sector (NCEUS) has grouped the workers into 'organised' (formal) and 'unorganised' (informal) workers (Table 1.2). The proportion of unorganised workers has increased from 91.2% in 1999-00 to 92.4% in 2004-05. The so-called 'organised' workers account for only 7.6% of total employment in the country in 2004-05, a decline from 8.8% in 1999-00. It is thus clear that India faces not only the problem of rising unemployment, but also deteriorating quality and conditions of employment. One of the urgent need is therefore to provide protected conditions of employment and social security to the unorganised workers.

Table 1.2: Sectoral Distribution of Organised (Formal) and Unorganised (Informal) Workers - 1999-00 and 2004-05

(millions)

Sector	Type of Employment					
	Unorganised (Informal) Workers		Organised (Formal) Workers		Total	
	1999-00	2004-05	1999-00	2004-05	1999-00	2004-05
Unorganised (Informal) Sector	341.3 (99.6)	393.5 (99.6)	1.4 (0.4)	1.4 (0.4)	342.6 (100)	394.9 (100)
Organised (Formal) Sector	20.5 (37.8)	29.1 (46.6)	33.7 (62.2)	33.4 (53.4)	54.1 (100)	62.6 (100)
Total	**361.7 (91.2)**	**422.6 (92.4)**	**35.0 (8.8)**	**34.9 (7.6)**	**396.8 (100)**	**457.5 (100)**

Note: *Figures in brackets are percentages.*

Source: *NCEUS (2007).*

1.5.4 Millenium Development Goals

In September 2000, at the United Nations Millennium Summit, world leaders agreed to a set of time-bound and measurable goals and targets for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. A road map was prepared in the form of Millennium Development Goals (MDGs), which consisted of eight goals, eighteen targets, and forty-eight indicators. These targets are to be achieved by 2015, from their levels which existed in the year 1990. The targets at the global level are set in tune with the individual country level targets for each of the Goal. Each country, including India, has set regional level targets under each goal. The following are the 8 Goals, set to be achieved by 2015, in which the status of India is indicated for each.

Goal 1: Eradicate extreme poverty and hunger

- Reduce by half the proportion of people living on less than a dollar a day.

- Reduce by half the proportion of people who suffer from hunger.

Globally, 1.2 billion people still live on less than $ 1 a day. Although, there has been considerable progress in poverty reduction, India's performance in reducing hunger and malnutrition is far from satisfactory. Even in 2008, 60% of the regions in the country are off the track in bringing down hunger (underweight) to the Millennium norms.

Goal 2: Achieve Universal Primary Education

- Ensure that all boys and girls complete full course of primary education.

Globally, 113 million children do not attend school. In India, it is reported that 95 percent of its children are reportedly in school and the target of 100% is likely to be reached soon.

Goal 3: Promote Gender Equality and Empower Women

- Eliminate gender disparity in primary and secondary education by 2005 and at all levels by 2015.

India is nowhere near reaching this target. Almost in 60% of the regions gender disparities in school enrolment, especially in secondary and higher level, are off-target. Progress is claimed in empowerment of women through formation of self-help groups (SHGs).

Goal 4: Reduce Child Mortality

- Reduce by two-thirds the mortality rate among children below five.

Globally 11 million young children die every year. India's performance even in reducing infant mortality rate (IMR) is off-target in 80% of the areas. Performance in immunisation is better but still 40% of areas are off-target.

Goal 5: Improve Maternal Mortality

- Reduce by three quarters the maternal mortality ratio.

In the developing countries, the risk of dying in child-birth is one in 48. Though there are safe motherhood programmes, the progress in India is very slow.

Goal 6: Combat HIV/AIDS, Malaria and Other Diseases

- Halt and begin to reverse the spread of HIV/AIDS.
- Halt and begin to reverse the incidence of malaria and other major diseases.

Countries like Brazil, Senegal, Thailand and Uganda have shown that we can stop HIV in its tracks. But, India, which has been supplying relatively inexpensive generic drugs to some of the countries, has no public programme to treat HIV patients freely. Malaria was reportedly eradicated in India, but there are fresh reports of its surfacing again!

Goal 7: Ensure Environmental Sustainability

- Integrate principles of sustainable development into country policies.

- Reduce by half the proportion of people without sustainable access to safe drinking water.
- Achieve significant improvement in the lives of 100 million slum dwellers by 2020.

Globally more than one billion (100 crore) people still lack access to safe drinking water. The record of India in making safe drinking water and sanitary facilities leave much to be desired.

Goal 8: Develop a global partnership for development

- Development of open trading and financial systems.
- Provide debt relief to poor countries.
- Address special needs of small and land locked countries.
- Provide accessible drugs through cooperation with pharmaceutical companies.

These are the areas where India is in a reasonably comfortable position and also should therefore strive to reach out to help other least developed countries.

The progress in MDGs since 2000 shows that many countries in East Asia and the Pacific, including China, Arab States, Latin America, and the Caribbean are on-track while countries in Africa and South Asia are off-track in achieving many MDG indicators. According to a study of 2006, progress in MDG indicators for Asia-Pacific countries shows that India is off-track in nine out of twenty one indicators. In other words, India may not fulfil 50 per cent of the MDG indicators by 2015 (Mahendra Dev 2008).

1.6 NEW CHALLENGES TO DEVELOPMENT

The growing dissatisfaction with per capita income as a measure of development, lack of proportionate improvement in the quality of life of people even in the face of growth and extensive damage done to environment and ecology in the name of faster growth have compelled rethinking on the concept of development. Two important dimensions that have come to assume significant space in the debates on development are: 'human development', and 'sustainable development'. 'Human development' combines the condition of living not only in terms of improvement in per capita income but also the quality of human beings in terms of their access to education, health and sanitation facilities. For more than a decade now Human Development Index (HDI) has emerged as an alternative measure of development as widely as the measure of per capita gross domestic product (GDP). Similarly, there has been growing awareness that human progress, if measured merely in terms of growth of GDP, would become unsustainable because of depletion, degradation and pollution that goes with increasing mass of production. Challenging the obsession with growth in the 'business as usual' fashion, there has been growing awareness of alternative path of growth that ensures sustainable benefits not only to the present generation but also to the future generations.

1.6.1 Human Development and Human Development Index (HDI)

Human development is a much broader concept in which economic growth is one of its components. Per capita income, at best, may indicate standard of living. Human development provides room for including what people value as development. Since values differ from people to people (value heterogeneity) and also one's own values change with development (value endogeniety), the components included in human development are ones on which there is near universal unanimity. For instance, on a proposition that better development is indicative of less of infant mortality and longer life, there is unlikely to be any difference of opinion. Similarly, development seen in terms of improved capabilities and better education, also carries universal acceptance. Human development, thus goes beyond the narrow notion of development being seen merely in terms of per capita income and tries to incorporate what people get out of their income in terms of beings and doings. Since 1990, the United Nations Development Programme (UNDP) has been publishing Human Development Report every year. These reports present the place of countries in terms of human development index (HDI).

Human Development Index (HDI)

Human Development Index (HDI) is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development:

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

Before the HDI itself is calculated, an index needs to be created for each of these dimensions. To calculate dimension indices – the life expectancy, education and GDP indices – minimum and maximum values (goal posts) are chosen for each underlying indicator. Performance in each dimension is expressed as a value between 0 and 1 by applying the following formula:

$$= \frac{-}{-}$$

The HDI is then calculated as a simple average of the dimension indices. The following are goalposts for calculating the HDI:

Indicator	Maximum Value	Minimum Value
Life expectancy at birth (years)	85	25
Adult literacy rate (%)	100	0
Combined gross enrolment ratio (%)	100	0
GDP per capita (ppp US $)	40,000	100

India's global position in terms of HDI rank improved from 132 (HDI: 0.545) in 1997 to 126 (HDI: 0.6) in 2004. During the same period, China improved its HDI rank from 98 (HDI: 0.701) to 81 (HDI: 0.768).

1.6.2 Concept and Challenge of Sustainable Development

Sustainable development refers to a pattern of resource use that aims to meet human needs of not only the present generation, but also future generation. The term was used by the Brundtland Commission (1987) which defined sustainable development as development that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'.

Sustainable development does not focus solely on environmental issues. The United Nations 2005 World Summit Outcome Document, refers to the four 'interdependent and mutually reinforcing pillars' of sustainable development as including: economic development, social development, and environmental protection. The fourth pillar is indigenous people and culture.

Green development is generally differentiated from sustainable development in that **Green development** prioritises what its proponents consider to be environmental sustainability over economic and cultural considerations. Proponents of Sustainable Development argue that it provides a context in which to improve overall sustainability where cutting edge Green development is unattainable. For example, a cutting edge treatment plant with extremely high maintenance costs may not be sustainable in regions of the world with fewer financial resources. An environmentally ideal plant that is shut down due to bankruptcy is obviously less sustainable than one that is maintainable by the community, even if it is somewhat less effective from an environmental standpoint.

During the last ten years, different organisations have tried to measure and monitor the proximity to what they consider sustainability by implementing what has been called sustainability metric and indices. Sustainable development is said to set limits on the developing world. While current developed countries polluted significantly during their development, the same countries encourage developing countries to reduce pollution, which sometimes impedes growth.

Environmental sustainability is the process of making sure that the current processes of interaction with environment is pursued with the idea of keeping the environment as pristine as naturally possible based on ideal-seeking behaviour. An 'unsustainable situation' occurs when natural capital (the sum total of nature's resources) is used up faster than it can be replenished. Sustainability requires that human activity only uses nature's resources at a rate at which they can be replenished naturally. Inherently, the concept of sustainable development is intertwined with the concept of carrying capacity. Theoretically, the long-term result of environmental degradation is the inability to sustain human life. Such degradation on a global scale could imply extinction for humanity.

Consumption of renewable resources	**State of Environment**	**Sustainability**
More than nature's ability to replenish	Environmental degradation	Not sustainable
Equal to nature's ability to replenish	Environmental equilibrium	Steady-state economy
Less than nature's ability to replenish	Environmental renewal	Sustainable development

Check your Progress – 4

1. What are the objectives of Millennium Development Goals (MDGs)? What is India's track record in health related goals?

....

....

....

....

2. What are the basic dimensions of Human Development Index (HDI)?

....

....

....

....

3. What is the significance of creating awareness about environmental sustainability in designing development?

....

....

....

....

1.7 LET US SUM UP

A sharp distinction between growth and development was drawn in the early 1990s. This distinction was drawn as the earlier measure of economic growth, measured in terms of GDP per capita, was realised to undermine many other aspects of development which together contributes to determine the real improvement in the quality of life. The different approaches to development, alternating between a primacy accorded to the state versus the market and the mixed economy model followed by India till the early 1990s are then discussed. The recent emphasis attached to the concept of inclusive growth is especially discussed to provide a thrust on the current policy perspective in India. Some of the continued problems of developing economies like India and the global resolve to tackle them by way of Millennium Development Goals in a time phased manner are also presented in the unit. The alternative to per capita GDP as a measure of growth, by way of human development index which came into adoption in the early 1990s, and the increased emphasis on sustainable development and its associated challenges have been dealt with towards the conclusion of the unit.

1.8 KEY WORDS

Growth : Normally, annual percentage change in national income/gross domestic product.

Development : A broader concept than growth.
It relates the changes in national income to the changes in the structure of the economy in terms of the processes behind these changes.

Inclusive Growth : A process of growth that does not exclude the poor and marginal. The benefits of growth percolate to these sections as well.

Mixed Economy : Institutional arrangement of the economy where State and market play equally important role.

Infant-Industry : Industry in the nascent (early) stage of development.

Kuznets Curve : A 'Bell-shaped' (or inverted 'U' shaped) curve which shows the relationship between inequality of income distribution and the level of per capita income. As income increases, initially inequality increases, but after a certain level, inequality decreases with the rise in the level of per capita income.

Casual Employment : Employment without any regularity and any social protection.

Human Development : Refers to level of per capita income/consumption as well as education and health standards. Usually measured as an index based on a vector of indicators of per capita income/consumption, literacy, infant mortality and life expectancy.

Sustainable Development : Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

1.9 SUGGESTED BOOKS FOR READING

Amartya Sen, "The Concept of Development" in *Handbook of Development Economics-I* ed. By H.B. Chenery, 1988.

Gerald M. Meier and James E. Raunch, *Leading Issues in Economic Development*, (8th Edition), OUP, New Delhi, 2006.

Mahendra Dev, *Inclusive Growth in India*, OUP, New Delhi, 2008.

Ruddar Datt and K.P.M. Sundaram, *Indian Economy*, (57th Edition) S. Chand, New Delhi, 2008.

Subrata Ghatak, *Introduction to Development Economics*, (4th Edition) Routledge, London, 2001.

1.10 ANSWERS/HINTS TO CYP EXERCISES

Check Your Progress -1

1. See 1.2 second para
2. See 1.3.2 first para
3. See 1.3.4 especially second para

Check Your Progress – 2

1. See 1.4 first para
2. See 1.4.2 especially first para
3. See 1.4.2 last para

Check Your Progress – 3

1. See 1.5.1 especially first two paras

2. See 1.5.2 especially first para

3. See 1.5.3 especially last three paras

Check Your Progress – 4

1. See 1.5.4 first two paras and goals 4 to 6

2. See 1.6.1 especially para 2

3. See 1.6.2 especially last para

UNIT 2 THOUGHTS ON DEVELOPMENT OF SELECT VINTAGE THINKERS

Structure

2.0 OBJECTIVES

After going through this unit you will be in a position to:

- discuss Indian economic thinking on issues of development;
- explain the theoretical ideas and contributions of nationalists whose views influenced the initial policy framework adopted in the country;

- contrast the views of nationalist thinkers with those of welfare and development economists; and
- discuss the development debates implicit in the process of economic planning and growth.

2.1 INTRODUCTION

Ever since political economy and economics emerged as separate academic disciplines, in the late 19th century, India has produced a galaxy of economists. Besides, a large number of scholars have contributed to the thinking on the economic development of India. Indeed the number of contributors is so large and their ideas so rich and vast, it is not possible to include the contributions of all of them in one unit. The purpose of the unit is to present the contributions of some of them relevant to understanding the aspirations and debates of economic planning and development of India. The aim and emphasis is therefore to include the ideas of major thinkers, since the late 19th century, on the issue of development. The unit thus essentially presents a glimpse of some important economists classified roughly under four broad groups viz. early nationalists, later nationalists, socialist thinkers and the more recent development economists.

2.2 EARLY NATIONALISTS

Here three important contributions from late 19th century and early 20th century are included. Under this, the first one to be outlined is the 'Drain Theory' of Dadabhai Naoroji which is rooted to India's freedom struggle and its associated economic history. Ranade's contribution on the 'Balanced Growth Theory' included next anticipates the significance of the approach much before it became popular in the second half of the 20th century. The contribution of Gokhale on 'Education and Economic Development' included towards the end of the present section is highly relevant even in the 21st century India.

2.2.1 Dadabhai Naoroji: The Drain Theory

During late 19th century and early years of the 20th, 'the drain theory' came to be seen as the symbol of Indian economic nationalism. Its message was that financial mechanisms by which British rule in India was maintained led to a transfer of wealth and income from India to Britain, imposing a 'bleeding drain' on the Indian economy. Although there were many who contributed to this explanation, the drain theory was essentially developed by Dadabhai Naoroji in his speeches and writings which were published in his book entitled Poverty and Un-British Rule in India (1901). The essence of the drain theory is that the unilateral transfers that India was compelled to make to Britain systematically stripped the country of resources and thus perpetuated poverty. Naoroji observed that: 'the chief cause of India's poverty, misery, and all other material evils is the exhaustion of its wealth, which continuously and increasingly exhausting and weakening its production, by the excessive expenditure on the European portion of all its sources, and the burden of a large amount each year to be paid to foreign countries for interest on the public debt, which is chiefly caused by the British rule'.

We may elaborate the three items of the 'drain' emphasised by Naoroji. First, the most important item was the remittance to England of a proportion of salaries, incomes, and savings by civil, military employees of the British origin, as well as by professionals such as lawyers and doctors. These, together with the payment in sterling by the government of India of the pensions and allowances of British officials, constituted a heavy burden on the resources of India. Second item was military expenditure. Just as in the case of civil servants, the remittances of a proportion of salaries, incomes and savings by British military personnel and the payment in sterling by the government of India of pensions and other allowances to the army officers, constituted an item of drain. It was observed that a poor country like India was made to subsidise the imperial defence. The third item was the remittances made in sterling of interest on loans for construction and maintenance of public works such as railways, irrigation works, etc.

The drain theory served as a basis for wide protests, and nationalist mobilisation against the British rule.

2.2.2 M.G. Ranade: Development and Industrialisation

Some have described Ranade as the father of Indian economics. Most of his writings were in late 19th century and were published in the **Quarterly Journal,** published from Poona. Although he wrote on several issues, we shall concentrate here on his thinkings on economic development. He was a modernist and his ideas on development were influenced by western experience.

First, he was very much influenced by the German Historical School and the Friedrich List. He defined economic development as the full and all-round development of productive powers of society. This requires a proper 'coordination' between different sectors, which alone can assure adequate and sustainable development for the output of each sector. Coordination is needed between agriculture and industry, and between rural and urban employment. In underdeveloped countries like India, a substantial increase in industrial employment and output is a necessary condition for sustained development.

Second, Ranade refered to 'stages of growth'. He identified India as being at a stage of agriculture plus handicrafts. He held out the next stage to which India should move should be agriculture plus manufacturing plus commerce. This taxonomy of stages in his conception of development provided Ranade, as a nationalist, with a useful handle to press for industrialisation.

Thirdly, he exposed that manufacturing industry allowed more scope than most other sectors for what he described as ‘art manipulation’, meaning application of modern technology to the production process. The application of technology to industry is at the root of ‘why output per head is found to be directly related to the proportion of labour force engaged in manufacturing’? He also observed that manufacturing provided opportunities for learning to improve productivity, which was not possible in agriculture. He concluded that: ‘there can be no doubt that the permanent salvation of the country depends upon the growth of Indian manufacturers and commerce, and that all other remedies can only be temporary palliatives’.

2.2.3 G.K. Gokhale: Education and Economic Development

G.K. Gohkhale, widely regarded as Ranade’s successor in the Indian national movement, insisted on the importance of human capital and especially of education. He insisted on the need for mass education as a prerequisite for economic development and argued that ‘an ignorant and illiterate nation can never make solid progress’. He believed that the spread of primary education ‘means the future salvation of our country’.

His arguments in favour of mass education had emphasised the role of mass education as investment as well as reward by higher consumption. He was aware that compared to the costs, the returns to the society by education in terms of development were substantial. His writings and speeches indicate that he could be considered a pioneer in the field of economics of education.

Gokhale pleaded for making elementary education free and compulsory throughout the country. Universal education could help the farmer to resist exploitation by the moneylender, to improve sanitation, to shake off superstition, to increase his earning capacity and to take an intelligent interest in public affairs. He introduced Elementary Education Bill in 1911 in the Imperial Legislative Council. This was modelled on the Irish Education Act of 1892 and the English Education Act of 1870 and 1876. The Bill sought to introduce the principle of compulsion into elementary education. He cited the examples of developed European countries, USA, Australia and Japan which had made elementary education both free and compulsory. He brought out the role that mass literacy had played in the economic development of these nations where whole populations were literate, and the dire need for universal elementary education in India which at that time hardly had 6 percent literacy. He argued that the costs of universal elementary education would be minimal and affordable, if implemented through schools run by local bodies. Funds could be found by economising on civil and military administration. In the Council, strangely there was some opposition from Indian Members, although both the Finance Member and the Education Member, both British, agreed with the need for mass elementary education and felt funds could be found. However, the Bill was turned down by the then Governor of Bombay who feared that education to masses would have severe political repercussions to the British rule in India.

Check Your Progress-I

1. What are the three items of 'drain' identified by Naoroji?

....

....

....

....

2. Why is Ranade called modernist among nationalists?

....

....

....

....

3. Why is Gokhale called pioneer of economics of education?

....

....

....

....

2.3 LATER NATIONALISTS: ALTERNATIVE TO WESTERN MODELS

We include in this section the contribution of two major nationalists viz. M. K. Gandhi and J. K. Mehta.

2.3.1 M.K. Gandhi: 'Swadeshi' and 'Gram Swaraj'

Mohandas Karamchand Gandhi was not an academic economist whose contribution to economics could be seen in terms of one theory or the other. He wrote on a wide ranging issues of significance to economics like consumption behaviour, trusteeship, charity, leisure and sanctity of work. But from the point of economic development, his writings on 'Swadeshi' and 'Gram Swaraj' are of great importance. These issues are broadly in the tradition of human welfare, though they do not fit into mainstream welfare economics. His concept of 'limitation of wants' is quite different from mainstream economics where human beings make choice between competing wants and choose those which give maximum satisfaction with the available resources. Not all kinds of happiness contribute to human welfare. Not all kinds of desire-satisfaction contribute to happiness. Individuals' desire for goods and services is not a limited set. The more one gets, the more one wants and still remains unsatisfied. Multiplying one's daily wants in this fashion merely makes a person a slave to an unending sequence of desires, and there is no slavery equal to slavery to one's own desires. Such a process does not lead an individual to any sustainable steady state consumption path. He considered that Western development was driven by a culture of multiplying wants which he regarded as a flawed one. For him, deliberate restriction of material desires by individuals by means of utmost efforts offer a more rational solution. For him, material advancement is no indication of moral advancement. M.K.Gandhi's thoughts were inspired by the ancient Indian thoughts on development and human welfare, which were enshrined in the ancient scriptures of India and partly spelt out in the masterly treatise on economics and statecraft, called *Kautilya's Artha S'astra, of sixth century B.C.* We would give a brief account of these ancient Indian classical thoughts on Development, contrasting them with the modern economic thinking, which influenced many of the nationalist thinkers of India in Section 2.7. It is believed that Gandhi was also influenced by Ruskin's Unto This Last, where the emphasis was on morality which is not determined by increase in wealth.

Some natural wants, according to Gandhi, could only be specified at the village level – like clean roads, better sanitation, good transport, better drainage, vegetation, school, dispensary, clean water and a dharmashala. Similarly, at individual level, every one must have access to balanced diet, a decent house, facilities for children's education and adequate medical relief.

Gandhi's ideas on swadeshi came as a part of the struggle against the British rule. Swadeshi movement was a mass movement to encourage people to develop a habit of consuming Indian products rather than foreign products. He justified swadeshi on moral principles. The first relevant principle was that of neighbourhood. The duty of an individual is to his neighbours. This leads to swadeshi which refers to the consumption of local products. His contention was that it would be sinful to wear foreign clothes while neighbouring weavers starve due to lack of demand for their products. Spinning and wearing khaddar (khadi) became symbolic expressions of swadeshi.

His swadeshi principle made Ghandhi oppose the western model of industrialisation. He was against mechanisation for three reasons. **First**, machinery displaces human and animal labour, instead of supplementing it. **Second**, unlike human labour, there is no limit to its expansion and growth. **Third**, it has a law of its own, which leads not only to labour being displaced, but also to its being displaced at an ever increasing rate. He thus opposed machinery because they create unemployment. He was a staunch advocator of strengthening the decentralised production with the promotion of village level industries. He believed in the feasibility of self-sufficient village level production of food and clothing. Village level resources could be managed by self-rule at the village level. His concept of development was – Gram Swaraj – in which villages enjoyed all their basic requirements through local production and village community based management of basic resources and facilities. In the 1940s, a Gandhian Plan was prepared for India (by Shiman Narayan) with an emphasis on self-sufficient village economy.

2.3.2 J.K. Mehta: Theory of Wantlessness

J.K. Mehta was a great scholar both in Economics and Philosophy. Mehta was known in the 1930s for his independent discovery of the concept of marginal revenue. Joan Robinson in her book Economics of Imperfect Competition makes a mention of this. However, Mehta, instead of his contribution to the mainstream Neoclassical Economics, is more famous for its critique and attempts to build alternative model of man than the 'maximising economic man'. We shall here concentrate on his critical tradition and his 'Theory of Wantlessness'. Through his writings like 'A Philosophical Interpretation of Economics' (1962) and 'Rhym, Rhythm and Truth in Economics' (1967), Mehta developed the Theory of Wantlessness as a counter to the Western Economists' theory of unlimited wants as the prime mover of economic activity. According to him, wants first emerge in the minds of people and subsequently surface more profusely as a source of pain when they are not able to satisfy them. Also, as soon as a want gets satisfied, a feeling occurs in their mind for a recurrent satisfaction of the want and also generation of many other allied wants. Thus, the satisfaction of a want gives birth to a new set of wants leading to a new source of pain if the wants cannot be satisfied. This cycle of satisfaction of one want giving rise to another want continues unendingly. Thus, the satisfaction of a want does not close the circle of desire and pain.

Alfred Marshall had referred to economic activity as flowing from the urge to satisfy given wants. As societies develop in material endowment, new activities would create new wants. Thus, according to Marshall, in the early stages wants create activities and at later stages activities create wants. But Mehta's approach is different. Assume a wantless society initially. It will be in a state of equilibrium. Now introduce a want. And this creates disequilibrium because there emerges a pain because the want is there but can not be satisfied. As soon as it is satisfied, it enters into his world permanently. A further want then emerges creating additional pain and puts the individual into a state of disequilibrium. When that is satisfied, there is temporary satisfaction. But for the latter to be permanent, the ever-emerging new wants have to be continuously satisfied.

Mehta's wantless individual would have satisfied his elemental desires for basic necessities. The problem arises when this bound is crossed or raised. New wants emerge for so called luxuries, which soon become necessities for comforts and as newer luxuries emerge, there is perpetual disequilibrium. To overcome this, one has to overcome imperfections, impurities and find ones true self. Then one will not be a slave to his wants. To approach this state of wantlessness one has to discipline his bodily existence, by understanding the temporary nature of satisfaction one gets from the growing wants beyond their basic necessities. Then society does not set out with activities that would generate more and more goods which would, in turn, generate scarcity of resources. In Mehta's wantlessness there is no room for scarcity as there is no room for unsustainable resource use. His theory of wantlessness provides insights that help move towards 'sustainable development'.

Check Your Progress 2

1. How does 'Swadeshi' help India progress?

   ....

   ....

   ....

   ....

2. How does wantlessness result in happiness?

   ....

   ....

   ....

   ....

3. Write briefly contrasting the idea of economic activity of Alfred Marshall with that of J. K. Mehta?

   ....

   ....

   ....

   ....

2.4 DEVELOPMENT AND SOCIAL JUSTICE

The concept of development, as you are aware by now, is not related to mere economic growth as recognised with increase in income or wealth. On the contrary, it relates to an overall development in an all inclusive manner. In other words, growth with development, does not leave out any section of the society, rather it seeks to take along all sections of the society in a socially inclusive manner. Contributing to this theme of growth with social justice, in this section, we study briefly the contribution of two socialists viz. B. R. Ambedkar and Ram Manohar Lohia.

2.4.1 B.R. Ambedkar: Small Farms, Agrarian Question and Nationalisation of Land

Dr. B.R. Ambedkar, by his education and training, was a trained economist first at Columbia University where he obtained his Doctorate in 1917 and later Doctor of Science from London School of Economics (1921). But, later he moved on to law and jurisprudence. His contributions on 'The Problem of the Rupee' and 'The Evolution of Provincial Finance in British India' are notable. But here we shall concentrate on his ideas on the small farmer agrarian economy which even now continues to be a major cause for concern in the Indian economy.

In his paper, 'Small Holdings in India and their Remedies' published in 1918, Ambedkar talks on the issue of small and fragmented farms and low productivity in India. At that time, the British experts considered Indian farms too small and fragmented, and suggested consolidation of these farms into large holdings. Ambedkar made a critical examination of the issue, and in the process arrived at some conclusions. To begin with, he struck at the very root of the proposal by arguing that there can be no such thing as a correct size of agricultural holding. As he argued, land is only one of the many factors of production and the productivity of one factor of production is dependent upon the proportion in which the other factors of production are combined. In his words: 'the chief object of an efficient production consists in making every factor in the concern contribute its highest; and it can do that only when it can cooperate with its fellow in the required capacity. Thus, there is an ideal of proportions that ought to subsist among the various factors combined, though the ideal will vary with the changes in proportions'. From this, he proceeds to point out that if agriculture 'is to be treated as an economic enterprise, then, by itself, there could be no such thing as a large or small holding'. If this is so, what is the problem? Certainly it is not due to want of efficiency in utilising whatever the peasant has. Ambedkar's answer rests on the inadequacy of other factors of production. The insufficiency of capital which is needed for acquiring 'agricultural stock and implements' arises from savings. It was non-availability of sufficient land in India to give her prosperity through the means of agriculture alone. There is almost a prophetic statement made by him long before modern theorists of development systematised notions of disguised unemployment or under-employment: 'A large agricultural population with the lowest proportion of land in actual cultivation means that a large part of the agricultural population is superfluous and idle'. Even if the lands are consolidated and enlarged and cultivated through capitalistic enterprise, it will not solve the problem as it will only aggravate the evils 'by adding to our stock of idle labour'.

Nationalisation of Land and Collective Farming

After observing the unequal holdings and persistence of tenancy with unfair rents and uncertain tenures, by 1947 Ambedkar came out with radical solution of nationalisation of land and collective farming. He felt that neither consolidation of holdings nor tenancy legislation contributes for improving agricultural productivity. Moreover, these measures can not help in solving the persistent problems of landless labourers and small farmers. He suggested nationalisation of entire agricultural land with collective farming as the solution for the ills of agrarian conditions. It should be the state's obligation to supply the capital necessary for agriculture as well as industry. Ambedkar's scheme suggested that agriculture shall be the state industry. Agriculture shall be organised on the following lines:

i) The State should divide the land acquired into farms of standard size and let out the farms for cultivation to residents of the village as tenants (made up of group of families). These tenants may cultivate the land on the following conditions.

    a) The farm should be cultivated as a collective farm;

    b) The farm should be cultivated in accordance with rules and directions issued by the government;

    (c) The tenants should share among themselves, in the manner prescribed, the produce of the farm left after the payment of charges leviable on the farm;

ii) The land should be let out to villages without any distinction of caste or creed and in such a manner that there should be no landlord, no tenant, and no landless labourer.

iii) It should be the obligation of the State to finance the cultivation of the collective farms by way of supply of water, draught animals, manure, seeds, etc. in order to increase the agricultural output.

iv) The State should be entitled;

    a) to levy the following charges on the produce of the farm: (i) a portion for land revenue, (ii) a portion to pay the debenture holders; from land acquired, (iii) a portion to pay for the use of capital goods supplied, and

    (b) to prescribe penalties against tenants, who break the conditions of tenancy by wilfully neglecting to make the best use of the means of cultivation offered by the State or otherwise work prejudicially to the scheme of the collective farming.

Ambedkar proposed that the scheme should be brought into operation as early as possible but in no case shall the period extend beyond the tenth year from the date of the constitution coming into operation. It is a different matter that the Indian parliament and entrenched landlord class was not ready to take to this path.

2.4.2 Ram Manohar Lohia: Against Caste Inequality

Ram Manohar Lohia was a Gandhian, freedom fighter and known for his anti-caste mobilisation through his Socialist Party. In 1940, when he wrote an article 'Satyagraha Now' in Gandhiji's paper, Harijan, he was jailed. The magistrate observed: 'He is a top-class scholar, civilised gentleman, has liberal ideology and high moral character'. We shall here confine to his ideas and social mobilisation against caste.

Lohia recognised that caste, more than class, was the huge stumbling block to India's progress. It was Lohia's thesis that India had suffered reverses throughout her history because people had viewed themselves as members of a caste rather than citizens of a country. Caste, as Lohia put it, was congealed class. Class was mobile caste. As such, the country was deprived of fresh ideas, because of the narrowness and stultification of thought at the top, which was comprised mainly of the upper castes, Brahmins and Baniyas, with tight compartmentalisation even there like the Brahmins dominant in the intellectual arena and the Baniyas in the business. A proponent of affirmative action, comparing it to turning the earth to foster a better crop, he urged the upper castes, 'to voluntarily serve as the soil for lower castes to flourish and grow', so that the country would profit from a broader spectrum of talent and ideas.

In Lohia's words, 'Caste restricts opportunity. Restricted opportunity constricts ability. Constricted ability further restricts opportunity. Where caste prevails, opportunity and ability are restricted to ever-narrowing circles of the people'. In his own party, the Samyukta (United) Socialist Party, Lohia promoted lower caste candidates both by giving electoral tickets and high party positions. Though he talked about caste incessantly, he was not a casteist – his aim was to make sure people voted for the Socialist party candidate, no matter what his or her caste. His point was that in order to make the country strong, everyone needed to have a stake in it. To eliminate caste, his aphoristic prescription was, 'Roti and Beti', that is, people would have to break caste barriers to eat together (Roti) and be willing to give their girls in marriage to boys from other castes (Beti).

Propounding the 'Principle of Equal Irrelevance', he rejected both Marxism and Capitalism, which were often presented as the only alternatives for third world nations. Lohia had a strong preference for appropriate technology, which would reduce drudgery but not put the common man at the mercy of far away forces. As early as 1951, he foresaw a time of the 'monotonic mind', with nothing much to do because the problems of living had been all addressed by technology. Aside from the procedural revolution of non-violent civil disobedience, bridging the rich-poor divide, the elimination of caste and the revolution against incursions of the big-machine, other revolutions in Lohia's list included tackling Man-Woman inequality, banishing inequality based on colour, and that of preserving individual privacy against encroachment of the collective. Many of Lohia's revolutions have advanced in India, some with greater degrees of success than others. In some instances the revolutions have led to perverse results which he would find distasteful. However, Lohia was not the one to shy away from either controversy or struggle. Lohia believed that a party grew by taking up causes. Lohia wanted to abolish private schools and establish upgraded municipal (government) schools which would give equal academic opportunity to students of all castes. This, he hoped would help eradicate the divisions created by the caste system. Lohia set up a plan to decentralise the government's power so that the general public would have more power in Indian politics. He also formed Hind Kisan Panchayat to resolve farmer's everyday problems.

Check Your Progress 3

1. What according to Ambedkar, was the basic problem of small farms?

   ....

   ....

   ....

   ....

2. Why, according to Lohia, did India suffer reverses in the past and is failing to achieve progress even now?

   ....

   ....

   ....

   ....

2.5 DEBATES ON MODELS OF DEVELOPMENT PLANNING

Given the large rural population depending on agriculture it is fair to think that agricultural sector reforms, of one kind or the other, to improve the lot of large poor agricultural labourers and farmers would be advocated by thinkers. Even here, to think of a mixed model which derives mutually from both the agriculture and industry, the latter suitable to the village model like the Khadi and Village Industry (KVI), is in keeping with the demands of the large agrarian base of a less developed economy like India as it was five to six decades back. But developmental planning in India has also derived from the contribution of thinkers who foresaw the need for heavy industries to provide a strong base of higher productivity avenues not only to the labour displaced from the traditional agriculture but also the huge urban educated youth force. They could foresee that besides the KVIs, modern industries would have to be promoted by laying a strong base with state supported investment. The present section discusses the approach of four such leading philosopher-statesmen/economists coming under this genre.

2.5.1 Jawaharlal Nehru and P.C. Mahalanobis: 'Mahalanobis Model'

Jawaharlal Nehru, the first Prime Minister of India, was inspired by rapid economic development of Russia and centralised planning. He chaired the Economic Programme Committee of his party which was committed to planned economic development with a prime role for public sector. He was inspired very much by the Soviet model of concentrating investment to begin with on heavy industry to sustain long-term self-reliant development.

While the First Plan was based on a rudimentary Harrod-Domar model that links aggregate rate of growth to the aggregate rate of capital accumulation mediated through a given incremental capital output ratio, the Second Five Year Plan was designed on the basis of differentiating the Capital goods sector and Consumer goods sector, and the non-shiftability of capital goods. Encouraged by the Nehruvian emphasis on sustained self-reliant development, the basic framework of the Plan was developed by P.C. Mahalanobis and hence called 'Mahalanobis Model' with some even branding it as the Nehru-Mahalanobis Model. The strategy of the Second Plan was rapid industrialisation with an emphasis on the development of heavy industry or capital goods industry with a priority. The logic was that a large country like India, if it were to increase consumption of the people in a sustained manner, it should develop basic machinery and equipment needed to produce consumer goods. Depending on imported capital goods for production of consumer goods in the long-run would lead to increasing import dependence. On the export front, the basic argument was as follows: The development of a heavy capital goods base over a period of time would lead to the diversification of the export basket in the direction of manufactured goods, including machinery and equipment. The increase in employment leading to an expanded demand for consumer goods would be met by pursuing 'capital light' methods of production.

Mahalanobis developed a two-sector model which divided the economy into a consumer goods sector and investment/capital goods sector. The two-sector model was later extended by Mahalanobis into four-sector model. While the two-sector model was concerned with inter-temporal allocation of investment, the four-sector model was related to inter-sectoral location of investment. The four sectors included were: (i) investment goods, (ii) factory production of consumer goods, (iii) household production of consumer goods (including agriculture) and, (iv) services. The emphasis was to build a base in the investment goods production. Mahalanobis's two pronged strategy visualised that together with increase in investment allocation for capital goods, promotion of cottage industries, which have high output-capital ratios, would sustain the consumption goods supply. Agriculture is also included under household industry under the assumption that food production has an element of high output-capital ratio, provided the sector is backed by land reforms.

The critics have pointed out several limitations of Mahalanobis model. One is that it hardly paid attention to high levels of savings needed. In an essentially agricultural country, large savings would not be forthcoming without developing agriculture. Further, it was pointed out that foreign exchange constraint was ignored in the context of limited foreign trade. The model did face problems in implementation due to supply shortage and inflation. But in the long-run many realised that Mahalanobis model, in spite of early difficulties in implementation, did lay a firm foundation for building a heavy industry base in India.

2.5.2 C.N. Vakil and P.R. Brahmananda: Wage-Goods Model

C.N. Vakil was a doyan of Indian Economics. He was the founder Director of Bombay School of Economics. He was known for his contributions to the contemporary problems of the Indian economy like the economic consequences of divided India and productivity in Indian economy. P.R. Brahmananda, who was a student of C.N. Vakil, rose to become one of the eminent economists of India. Even though Brahmananda's contributions enriched almost all areas of economics, monetary economics remained his forte. His major contribution to economic theory was reconstruction of classical economics for developing countries. He viewed the problems of welfare economics and development from an extended classical angle. Here, we shall look at more closely with his contribution of a model which got noticed as an alternative to Mahalanobis model.

In their well known work, Planning for Expanding Economy (1956), Vakil and Brahmananda offered the 'Wage-Goods Model' as a more appropriate alternative to the Indian economy, in contrast with the 'Heavy industry' model of Mahalanobis for the Second Plan. They argued that Mahalanobis's model was inspired by the Soviet experience which was quite different from the Indian conditions. Further, the international climate under which the Soviet industrialisation was carried out was not favourable for imports of capital equipment into that country. The conditions in India were quite different.

Vakil-Brahmananda argued that the major problem in India was low savings and disguised unemployment. Their model extended the Nurksian thesis of concealed 'savings-potential' in situations of rural disguised unemployment in less-developed countries. Disguised employment or under-employment was a common feature of the Indian economy. Existence of 'disguised employment' meant work available to those employed in informal agriculture and household industry was below their capacity. Under the conditions of under-employment, workers could be shifted to projects without affecting production. Vakil and Brahmananda proposed effective use of concealed saving potential of the 'disguised unemployed' in productive projects and use the limited savings in the production of 'wage-goods' which could be supplied to meet the demand of those employed in projects which create economic overhead capital. Thus, wage-goods include consumption necessities required for subsistence and also for the performance of work. Withdrawal of surplus labour from the traditional activities like agriculture would not only lead to accumulation of capital in the form of infrastructure projects but also increases overall productivity and savings.

Check Your Progress 4

1. Why is 'Mahalanobis Model' called heavy industry strategy?

....

....

....

....

2. What is the basic proposition of wage-goods model?

....

....

....

....

2.6 DEVELOPMENT AND WELFARE

The emphasis on growth, even with due attention paid to benefit the agricultural sector workers by implementing the policies of land reforms and development of village industries suited to local resource use and skills, still left development of human capital largely underdeveloped. The term 'growth', thus, was realised inadequate to describe the desired societal outcome of planning. Consequent to this, towards the later half of the 20th century, the need to accord prominence to 'development and welfare' gained ground. There were many economists who contributed towards this paradigm shift in economic philosophy. The current section presents some important contributions of economists and philosopher-thinkers in this direction.

2.6.1 Amartya Kumar Sen: Capabilities and Human Development

Amartya Kumar Sen, the only Asian to receive Nobel Prize in Economics, is an extraordinary scholar whose contributions to philosophy are as extensive as it is to economics. His contributions to economics range from choice of techniques, welfare economics with particular focus on social choice theory, economics and ethics, and poverty and famines. We shall, however, concentrate on his theory of capabilities and measurement of human development here.

Sen's revolutionary contribution to development economics and social indicators is the concept of 'capability'. He defined 'capability' as "a set of functioning bundles representing the various alternative 'beings and doings' that a person can achieve with his or her economic, social, and personal characteristics".

Capability, thus defined, is 'tantamount to the freedom of a person to lead one kind of life rather than another'. It follows, therefore, that the individual's capability can be repressed [for example by denying a person access to basic services (including food, education, land, freedom of expression, or health care)], or realised - through a person's own agency. However, supportive actions by other individuals and a range of institutions, including the 'developmentalist' state capable of public action, would also be needed for the individual to be able to realise his capabilities. The core of development itself is, therefore, the enjoyment of freedom – not just freedom of speech in a narrow sense, but freedom for individuals to realise their capability.

Sen's major contribution on this issue is *Development as Freedom* (1999). It redefines human wellbeing to mean the enhancement of capabilities. He says: 'development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency'. He separates well-being into two components: well-being concerned with individual interests, and well-being concerned with the interests of others. Democracy is viewed as the most preferred system of governance with the greatest capacity to expand basic freedoms. Achieving development, then, requires the expansion and improvement of capabilities and entitlements for the poor and underprivileged (education and healthcare figure prominently in Sen's empirical work, notably on India). The purpose of the expansion of capabilities ought to be the enhancement of freedom itself, because the purpose of development is ultimately, freedom.

His philosophical and theoretical work on development helped to improve the indicators used to measure poverty rates and human development. He was instrumental in the development of the Human Development Index (HDI) and its expression in the United Nations Development Programme's *Human Development Report*, which signalled something of an alternative to the neoliberalist 'Washington Consensus' on poverty measures. Sen showed that human development was high in a number of countries, even though their per capita incomes (the standard measure of growth used by the World Bank and other international agencies) were low. Hence, he and subsequent researchers at the UNDP have argued that development priorities should be geared more towards improving human development (capabilities) – assessed through wide-ranging multivariate indices - rather than growth-centred economic policy. This effort was part of a move towards discussing other contribution to capability, including gender roles, fertility, and gendered mortality risk. For example, Sen has argued strongly for the extension of freedom and independence to women and children in developing countries, which he says has demonstrable effects on well-being, poverty alleviation, and mortality. He regards the neglect of women's nutrition and health (not least among poor African-Americans in the USA), and sex-selective abortion in developing countries as criminal.

Major criticism against this ambassador of humane economics is about his silence on the relationship between production of 'opulence' and the deprivation of capabilities and entitlements. He is silent about the production of prosperity for an increasingly tiny minority which is related to 'unfreedoms' and the denial of capability enhancement for the majority through appropriation of surplus value. And the case for radical redistribution of wealth is not present in Sen's major works. It is also pointed out that Sen's liberalism leaves him poorly equipped to deal with questions of entrenched power and the politics of conflict and social mobilisation.

2.6.2 I.G. Patel: How to Turn India's Gold for Economic Growth?

I.G. Patel, began his career in IMF and later rose to become Economic Advisor to the Government of India, Governor of the Reserve Bank of India and later became Director of London School of Economics. His major research contribution was on India's gold problem.

India has been famously described as the perennial sink of the precious metals (Stanely Jevons). What determines the virtually insatiable appetite of India for gold and how does one mobilise its gold for productive purposes? I.G. Patel, in his early career at IMF engaged with the gold question and wrote a pioneering paper on 'India's Elasticity of Demand for Gold' (August 21, 1950). It estimated the responsiveness of India's demand for gold to changes in its relative price by attempting to correlate the net flow of gold from (or to) private hoardings during the period 1925 to 1942. He does this with two variables viz. relative price of gold and the consumption of refined sugar as a proxy for national income. The results suggested that the demand for gold was highly responsive to changes in its relative price. Patel argued that, historically, price has been a more important explanatory variable than income. However, he did not publish the paper because he was aware that the methodology used had a tendency to overestimate price-effect and underestimate the income-effect.

Patel continued to engage with the question as to how to mobilise the stock of hoarded gold and flow of smuggled gold for the purpose of productive investment in India's economic growth. He addressed this issue in a paper, 'On Turning Gold into Base Metals' (Economic Weekly, 1958). The article is a closely reasoned evaluation of alternative modes of transferring private gold to official reserves by (i) open market purchases by the government, (ii) issue of bonds redeemable in rupees against delivery of gold or (iii) to be subscribed and redeemed in gold, and acquisition by compulsion. However, he concluded that the solution to the problem must be sought in a 'mixture of sustained propaganda, compulsion, incentives affecting people's expectations about the value of gold in future'. He was aware of the blind faith of people in just possessing gold without any productive result. He was therefore striving for a solution to this problem. He observed that 'whatever the ultimate solution, the agenda for the dethronement of gold from the position it occupies today in India deserves more serious consideration at the hands of thinking people in the country than it has received so far' (Patel 1958). Despite fifty years since he said that, there has been no serious research and debate on India's gold problem!

2.6.3 Select Leading Contributions: Development and Welfare

Post-Independent India saw a galaxy of development economists contributing to the thinking on planning for development. Three such contributions are mentioned briefly here.

V.K.R.V. Rao

Dr. V.K.R.V. Rao was an eminent economist, a well known academician, administrator and institution builder. While in Cambridge he was a member of the famous Political Economy Club presided over by John Maynard Keynes. Rao's major contribution was to scientific estimation of national income. We shall, therefore, confine to macro-economic and development aspects of his work. His early contribution (1952) was in macro-economic theory which examined the interrelation between investment, income and multiplier. His contribution was that Keynesian multiplier does not apply to underdeveloped countries like India. The main features of underdeveloped economy identified by him were: (i) prevalence of disguised unemployment, (ii) dominance of production under household enterprises, (iii) significant extent of production for self-consumption, (iv) predominance of agriculture, (v) deficiency of technical knowledge, (vi) deficiency of capital equipment, (vii) high marginal propensity to consume of almost unity and (viii) a high proportion of incremental demand towards food in any increment in income. Rao argued that while a primary increase in investment would take place, a subsequent, secondary and tertiary effect of increase in investment through the expansion of output in the consumption goods sector would not take place. Consequently, the multiplier process would not operate.

But, Rao was a staunch advocate of deficit financing for funding deficits on the capital account. Deficit financing to fund capital investment for economic development was considered by him as a positive policy. The resulting inflation, if kept within limits, could be seen as a means of forced savings. The assumption here was that by holding wages constant, one could mop up a significant portion of increase in money incomes caused by the rise in prices.

K.N. Raj

K.N. Raj was instrumental in developing the Delhi School of Economics. Raj was involved in drafting the First Five Year Plan. He later set up Centre for Development Studies at Thiruvananthapuram. He along with his colleagues worked on Kerala economy for the UN which helped shape the contours of what later came to be called the 'Kerala Model' of development. Although there are changes in the Kerala economy, Kerala Model even now stands for co-existence of low per capita income and very high physical quality of life indicators. His emphasis on education, health care facilities and small scale industries are deeply rooted in welfare economics.

D.R. Gadgil

D.R. Gadgil, a foremost nationalist of the post-Independence era, returned from Cambridge and established the Gokhale Institute of Economics and Politics in Pune and later became the Deputy-Chairman of the Planning Commission. His studies were focused on agriculture, irrigation and institutions. He laid emphasis on cooperatives for the development of agriculture and agro-based industries. He was a pioneer in decentralised planning in India.

2.7 ANCIENT INDIAN THOUGHTS ON DEVELOPMENT : A CONTRAST WITH THE MODERN ECONOMIC THINKING

It is often believed, rather, erroneously that the ancient Indian literature, mostly written in Sanskrit, is a treatise on philosophy and metaphysical dimensions of life. However, this vast literature contains many basic thoughts on economic development and human welfare. Most of the basic thoughts of this literature has had significant influence on the thinking of our *nationalist and socialist* thinkers, both of pre-independence and post-independence vintage. It is useful to get to know the broad contours of this classical wisdom of India. We refer to this model as Ancient Indian Paradigm of Development (AIPD). The AIPD can be compared and contrasted with the Modern Economic Science of Western Vintage (MES). AIPD conceives *Man in a holistic framework as a blend of materialism and normative values.* As against this, MES conceives *Man as a Rational Economic man* and formulates the goals of economic activities, in terms of material self interests. The approach of maximisation of Profits, National Income, Foreign Exchange earnings, Consumption, etc. determines the contours of economic activities. AIPD advocates restraint on consumerism and conceives that expansion of capital formation and growth should be realised in a framework of Values, such as, equity and optimum social welfare. The goals of all activities are conceived in terms of an integrated framework of *what are called as Dharma (Values), Artha (Capital Formation), Kaama (Basic needs Consumption), and Moksha (i.e. Highest Efficiency).* AIPD gives to social equity, highest priority and advocates that concerns of social welfare should precede the urges for material self interests. In AIPD, *Gross Welfare Product* is the sum of *Gross Domestic Product and Moral Values of Life.* The AIPD detests the approach of realising high growth of GDP without the commitment to *Values and Morality in human lives.* Contentment, Self-sacrifice, Cooperation, stress on performance of one's own Duties before yearning for fulfilment of rights, simplicity in Life-Style, commitment to morality, principles of *managing oneself in such a way as to shun corruption and materialistic temptations* are some of the *Values,* which are stressed in the Ancient Indian Paradigm of Development. Kautilya's *Artha S'astra* –a treatise of economics and political science, written in 6th -7th century B.C. , spells out the various principles of efficient *Governance* and evolution of a welfare state.

Check Your Progress 5

1. How does Amartya K. Sen visualise human well-being?

   ....

   ....

   ....

   ....

2. What is the major problem with gold in India?

   ....

   ....

   ....

   ....

3. According to V.K.R.V. Rao, what is the role of 'deficit finance' in development?

   ....

   ....

   ....

   ....

4. Write a note on the 'contrast between the AIPD and the MES models of development'?

   ....

   ....

   ....

   ....

2.8 LET US SUM UP

This unit, discusses very briefly, the contribution of a select band of scholars on economic development over a period spanning from the late 19th century to the late 20th century. The problems addressed range from underdevelopment caused by colonial rule to difficulties of development experienced due to complexities arising not only out of resource constraints but also due to social and institutional factors. Problems relating to small farmer economy, inadequate spread of education, under-utilisation of certain resources like human labour, unproductive hoarding of resources like gold, etc. which were focused upon in the work carried out by the band of economists discussed, along with the path suggested by them, are outlined in the unit. While many of the suggestions made by the contributors are implemented in practice, the very nature of application in economics is beset with such complexities that the nature of problems for which the suggested solutions were applied, continue to persist even today. The contest for appropriate strategy for development thus is a continuing one. Given the constraints of changing conditions and context with which all economic theorists and philosophers should cope with, the history of development thinking that is set out in this unit is aimed at providing the learners with a perspective of wisdom displayed by the contributors to India's economic thinking and policy. There is also a brief section on the Ancient Indian Economic Thought on economic development, with a profile of its distinguishing features in comparison with the Modern Economic Science. This Unit would also be of help in throwing light on understanding the choice of future path of development in India.

2.9 KEY WORDS

Drain : Unilateral transfer of resources from India to Britain.

Art manipulation : Application of modern technology to production process (Ranade).

Swadeshi : Emphasis on consumption of local or Indian products in preference to imported foreign goods.

Wage-goods	:	Consumption necessities required for subsistence and performance of work.
Capabilities	:	A set of functioning bundles representing various alternative 'beings and doings' that a person can achieve.
Wantlessness	:	One's satisfaction with elemental desires for basic necessities.
Kerala Model	:	Low per capita income combined with very high physical quality of life indicators.

2.10 SOME USEFUL BOOKS

Ajit Dasgupta, *A History of Indian Economic Thought*, Routledge, London, 1993.

Ashok V. Bhuleshkar, *Indian Economic Thought and Development*, Popular Prakashan, Bombay.

Debendra Kumar Das (ed), *Great Indian Economists: Their Creative Vision for Socio- Economic Development*, Deep and Deep Publications, New Delhi, 2004.

Om Prakash Mishra, *Economic Thought of Gandhi and Nehru: A Comparative Analysis*, M.D. Publications, 1995.

Narendra Jadhav, Dr. Ambedkar's *Economic Thought and Philosophy*, Popular Prakashan, Bombay.

Panchamukhi V.R. *Indian Classical Thoughts on Economic Development and Management*, Bookwell Publications, New Delhi, 2000.

Raj Kumar Sen and Ratan Lal Basu (Ed), *Economics In Artha S'astra*, Deep & Deep Publications Pvt. Ltd., New Delhi, 2006.

2.11 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. See Section 2.2.1 para 3
2. See Section 2.2.2
3. See Section 2.2.3 para 2

Check Your Progress 2

1. See Section 2.3.1 para 3
2. See Section 2.3.2 para 3

Check Your Progress 3

1. See Section 2.4.1 para 2
2. See Section 2.4.2 para 2

Check Your Progress 4

1. See Section 2.5.1 para 3
2. See Section 2.5.2 para 2

Check Your Progress 5

1. See Section 2.6.1 para 3
2. See Section 2.6.2 para 2
3. See Section 2.6.3 para 3
4. See Section 2.7

UNIT 3 GROWTH AND STRUCTURAL CHANGE

Structure

3.0 OBJECTIVES

After reading this unit, you will be able to:

- explain the patterns of structural change that accompany growth;
- examine the theory and empirical experience of developed countries;
- analyse the experience of India's economic development in terms of the structural change; and
- describe the sources of growth and nature of outcomes.

3.1 INTRODUCTION

Economic development may be seen as a process of transforming a poor country into a more developed country. It is often measured in terms of growth in per capita GDP. To understand this process of transformation one needs to get at the forces which need to be stimulated to achieve the GDP growth. One would then be able to see development as a process of transforming a low savings and low investment economy into a high savings and high investment economy. Structurally, one could see it as a process of transforming a predominantly primary goods producing country into a predominantly industrialised country. In the present unit, we shall examine the theoretical and empirical evidence that explains the process of economic development by way of a certain pattern of structural change. Within this framework we shall examine the nature of structural transformation that has taken place in India. In particular, we shall examine the changes in the savings and investment pattern in India. Finally, we shall relate the outcomes of growth to the major persistent economic challenges like poverty reduction, income distribution, and regional disparities.

3.2 DEVELOPMENT AND STRUCTURAL CHANGE

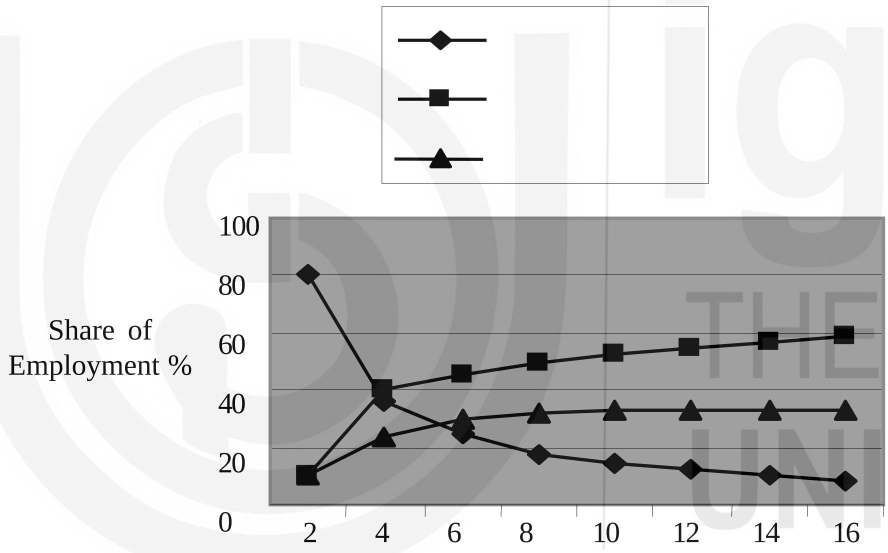
Development economics may largely be characterised as dealing with issues of structure and growth in less developed countries. In economics, there are two variants of structure. One is concerned with the functioning institutional structure like the market and state and their role in the allocation of resources. The second variant of structure refers to the interrelationship between the different sectors of economic activity. This variant views economic development as a long-run process of structural transformation that accompanies growth. The central features of this approach are economy-wide phenomena such as industrialisation, urbanisation, and agricultural transformation. We are concerned with the latter type of structural analysis that deals with growth and its resulting structural transformation. For the sake of simplicity, we may consider an economic structure consisting of three sectors viz. primary sector (consisting mainly of agriculture), secondary sector (consisting mainly industries), and tertiary sector (consisting mainly of services). We shall deal with the patterns of structural transformation during the transition from a low income, agrarian rural economy to a non-agrarian and industrial urban economy with a substantially higher per capita income.

3.2.1 A.G.B. Fisher and Colin Clark

The earliest contribution to the theory of economic development and its structural transformation is attributed to William Petty (1623-1689) and Friederich List (1789-1846). However, modern analysis of sectoral transformation originated with A.G.B. Fisher (1935, 1939) and Colin Clark (1940) who dealt with the sectoral shifts in terms of their composition of labour force. Using the tri-chotomised sectoral classification of an economy into primary, secondary and tertiary sectors, Fisher and Clark explain the reallocation of workforce during the period of modern economic growth. According to them, as economies developed there will be shift in the share of workforce initially from primary (agriculture) to secondary sector and later to the tertiary sector. The Fisher-Clark explanation can be presented in a graphical form. Figure

3.1 shows the nature of shifts in the share of workforce as an economy moves from low income per capita to high income per capita. As we move along the path of development represented by per capita income on the X axis, agriculture experiences gradual decline in the share of workforce, whereas industry experiences an increase. This increase in the share of workforce in industry is much faster as compared to the increase in services. However, after a point of peak in per capita income, the relative shares of all sectors stabilise with agriculture accounting for the lowest share. The main reasons offered for the shift in labour force to industry are: first, following Engel's Law, as the incomes rise the demand for industrial products increase more than proportionally whereas the demand for food increase less than proportionally. In other words, the elasticity of demand for industrial products is higher, whereas, for food it is less. Second, the rate of growth of productivity in industry is faster which attracts more investment and employment.

Figure 3.1: Relationship Between Sectoral Workforce Shares and Economic Development (Per Capita Income)



3.2.2 Simon Kuznets

Based on the empirical evidence of long-run transformation of a large number of countries, Simon Kuznets synthesised the broad patterns of economic growth. Extending the analysis of shifts in workforce from primary to secondary to tertiary sector, Kuznets also relates the employment shifts in the shares of contribution to national income. The resulting relationship between growth and structural transformation is captured well by distinguishing the three stages of transformation as follows:

Stage 1: Primary Production: The first stage of the transformation is identified by the predominance of primary activities – especially agriculture – which provides the main source of input for the output of other two sectors viz. the secondary and the service sectors. This initial stage of transformation is typically characterised by slow growth in agriculture, low demand for manufacturing goods and slower overall growth rates.

Stage 2: Industrialisation: The second stage of transformation is characterised by the shift of the centre of gravity of the economy away from primary production towards manufacturing. The main indicator of this shift is the relative importance of the contribution of manufacturing to growth.

Stage 3: The Developed Economy: The transition from stage 2 to stage 3 takes place on several fronts. Income elasticities for manufacturing decline. Demand for services increase. Factor productivity growth spreads to all sectors without remaining confined to manufacturing. Services emerge as the largest contributor to both employment and national income. Agriculture turns out to be lowest in terms of labour share but labour productivity in agriculture increases to very high level. The wage gap between agriculture and other sectors starts closing.

3.2.3 Experience of Developed Countries

The ideal pattern of structural change that has been witnessed in most of the developed countries is as seen in Table 3.1. The highest percentage of workers engaged in agriculture is 5 percent. In industry it is around 25-30 percent. Services account for the bulk of the employment share i.e. in excess of 65-70 percent. Sectoral contribution to GDP is also more or less of the same order i.e. less than 5 percent from agriculture, between 25-30 percent from industry and the bulk, close to 70 percent or more from the service sector. But, the experiences of countries like India, which are latecomers to development, have certain distortions particularly in the shift of labour shares.

Table 3.1: Output and Employment Shares in Selected Developed Economies (2002)

Country	Share in Output (%)			Share in Employment (%)		
	Agriculture	Industry	Services	Agriculture	Industry	Services
United Kingdom	1	26	73	1	25	74
United States	2	23	75	2	24	74
France	2	22	76	3	25	72
Japan	1	31	68	5	31	64
Germany	1	30	69	3	33	64
Italy	3	29	69	5	32	63
Australia	4	26	69	5	21	74

Source: *World Bank (2004) World Development Indicators*

Check Your Progress – 1

1. What is the sectoral composition of an economy? Who were the pioneers in using the sectoral composition for explaining the structural transformation of economies?

   ....

   ....

   ....

   ....

2. What is the Fisher-Clark hypothesis of workforce shifts with growth? Why does labour force shift to industry?

   ....

   ....

   ....

   ....

3. What is the stylized explanation of structural change proposed by Kuznets?

   ....

   ....

   ....

   ....

3.3 GROWTH AND STRUCTURAL CHANGE IN INDIA

Since the beginning of the era of planning, for almost three decades the Indian economy experienced an average real growth rate of about 3.5 per cent per annum. Since the 1980s, the Indian economy broke away from this slow growth path, and since then has been on a relatively high growth path. Associated with this growth in GDP, and per capita income, there has been considerable structural transformation especially in terms of sectoral composition of GDP. Table 3.2 shows the structural change in GDP over the period 1950-51 to 2004-05. As expected, the share of agriculture (primary sector) has come down substantially from 57.7% in 1950-51 to 20.90% in 2004-05. The share of secondary sector (industry) was 25.54% in 2004-05. In many comparable economies the secondary sector's share ranges from 35 to 45 percent. In economic literature, expansion of manufacturing sector is looked upon to play a technically dynamic role. But in India, the expansion of tertiary sector (services) is much faster than that in the manufacturing sector.

Table 3.2: Sectoral Share of Gross Domestic Product at Factor Cost in India 1950-51 to 2004-05

(1993-94 prices)

Year	Primary	Secondary	Tertiary
1950-51	57.7	14.8	27.5
1960-61	53.3	17.9	28.6
1970-71	46.3	21.6	32.1
1980-81	37.2	23.7	36.6
1990-91	32.2	27.2	40.6
2000-01	24.68	25.01	50.31
2004-05	20.90	25.54	53.56

Source: *CSO, National Income Statistics, Various Issues.*

Questions are raised whether growth, led by services, can be sustained with a lean manufacturing sector? However, in the context of the technological dynamism infused by the information and communication technology (ICT) which also spreads to the manufacturing sector, it is suggested that the traditional role of manufacturing sector as a vehicle of infusing dynamism is now assumed by the so-called services sector which includes ICT.

But, the cause for concern is the lack of proportionate shift in the share of employment along with the shifts in the share of GDP. For instance, Table 3.1 showed that the sectoral shares of workforce and the shares of GDP are almost in the same proportion, indicating uniformity in the spread of high productivity levels across the sectors to the entire economy. This also suggests less of income disparities across the sectors. In contrast, Table 3.3 for India shows that while there is a drastic decline in the share of agricultural sector in GDP, its share in workforce is still very high (57 percent in 2004-05). This indicates a low productivity and low income agriculture sector. In contrast, there is substantial increase in the share of 'services' sector in the GDP with relatively very little increase in the share of employment. The high productivity and high income levels of service sector aggravates inter-sectoral income inequalities. Thus, the structural transformation in the case of Indian economy appears to be following its own path, unlike the developed economies, creating structural distortions.

Table 3.3: Relative Sectoral Shares of GDP and Employment

(Percentage Share)

Year	Primary*		Secondary		Tertiary	
	GDP	Employment	GDP	Employment	GDP	Employment
1972-73	44.8	74.0	21.0	11.2	34.2	14.6
1993-94	33.5	63.9	23.7	14.9	42.8	21.2
2001-02	26.3	60.8	24.4	17.1	49.3	22.1

*includes mining and quarrying

Source: *Datt and Sundaram, 2008.*

Check Your Progress – 2

1. What is the nature of change in the share of agriculture in national output and employment between 1950-51 and 2004-05?

   ....

   ....

   ....

2. What is the trend in the share of the secondary sector in employment and output in India?

   ....

   ....

   ....

3. Is there any cause for concern in the nature of structural change in the Indian economy?

   ....

   ....

   ....

3.4 CHANGES IN SAVINGS AND INVESTMENT STRUCTURE

Capital accumulation or capital formation, or simply investment, has been the core of classical, Marxian and modern development theory. In fact, the process of economic development is seen as a process of capital accumulation. Much of the 'development theory' has been focused on the explanation of why poor countries do not have adequate savings, and how countries have to move from low savings to high savings path. As W. Arthur Lewis (1957) wrote, 'the central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 percent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more'. Thus, according to development theory in general, 'savings is the engine of growth'. The famous proposition of Ragnan Nurkse (1953) on 'vicious circle of poverty' also explains poverty as a result of low savings. Low income leads to low savings and investment which, in turn, results in small size of the market, low investment levels, low productivity returns, and, finally ending up in low incomes. Nurkse's basic development question, therefore, is how to break the low savings–low investment vicious circle?

Doubts were expressed on the rising savings ratio, as a proportion of national income, serving as an engine of growth. It was argued that with increasing savings and increasing physical investment per head, there would be diminishing returns on investment and hence savings could not act as the 'engine of growth'. However, this argument was countered by the 'endogenous growth theory' which argued that savings enabled accumulation of not only physical capital but also knowledge which staved-off diminishing returns. The policies that changed savings could change the rate of growth. The 'endogenous growth theory' thus gave a firm foundation to the proposition that 'savings is the engine of growth' and that growth rates can be changed by policies that provide the incentive to save. The experience of East Asian countries and that of India in recent years provide ample evidence of the need for high levels of savings and investment to achieve higher rates of growth.

Savings and Investment (Capital Formation) in India

The Indian economy moved from a position of very low levels of savings and investment in 1950s and 1960s to relatively higher levels of savings and capital accumulation in recent years. Estimates of savings in India are available for three sectors viz. the household sector, the private corporate sector and the public sector. The household sector includes, besides individuals, all non-government and non-corporate enterprises like sole proprietorships, partnerships and institutions. Table 3.4 provides the source-wise savings in the Indian economy for the period 1950-51 to 2004-05. Examination of savings data presented in Table 3.4 shows that until late 1960s, the rate of growth of savings was low due to higher share of low productive (and consequently low saving) agriculture in the GDP

Table 3.4: Source-wise Gross Domestic Savings and Gross Capital Formation in India (1950-51 – 2006-07)

(As percentage of GDP at Market Prices)

Year	Household Sector Savings	Private Corporate Sector Savings	Public Sector Savings	Total Savings	Gross Capital Formation
(1)	(2)	(3)	(4)	(5)	(6)
1950-51	6.2	0.9	1.8	8.9	8.7
1960-61	7.3	1.6	2.6	11.6	14.4
1970-71	10.1	1.5	2.9	14.6	15.4
1980-81	13.8	1.6	3.4	18.9	20.3
1990-91	19.3	2.7	1.1	23.1	26.3
1995-96	18.2	4.9	2.0	25.1	26.9
2000-01	21.2	3.6	- 1.8	23.6	25.9
2006-07	23.8	7.8	3.2	34.8	35.9

Note: The difference between savings (col. 5) and investment (col. 6) is accounted for by net-capital inflows from abroad.

Source: 1. CSO, National Accounts Statistics, 2006.
2. For 2006-07, Economic Survey 2007-08, 2008.

and also due to lack of development of institutions for the mobilisation of savings, particularly in rural areas. There was considerable increase in the savings during 1968-69 to 1975-76 due to bank nationalisation, rapid expansion of bank branches and improved performance of the agricultural sector. Beginning with late 1970s, savings experienced rapid surge contributed mainly by sharp increases in foreign remittances leading to increase in household savings. Corporate savings too started increasing during this period. During the 1990s, savings remained stable at a relatively high level of about 24 per cent. Beginning with 2000-01, there was another spell of steep rise in savings, mainly as a result of considerable increase in the corporate savings, taking the aggregate country's saving to an impressively high level of 34.8 percent in 2006-07. In recent years, the savings and investment levels in India, have reached high levels comparable to those of South East Asian countries. High levels of sustained savings and investment are among the main forces of sustained high levels of growth experienced in recent years in India.

Changes in Investment Structure

Over the years, there have been changes in structure of investment in terms of industry of use. Table 3.5 shows the changes in the share of investment of different productive sectors (the 3-sector classification of the economy further broken down into the 9-sector 1-digit classification as per NIC-1987) in India between 1950-51 and 2004-05. There are several factors contributing towards these shifts in the industry shares. **First**, as observed earlier, with economic development there will be shift in the productive sectors in overall national product and income generation. For instance, the share of agriculture and primary sector in general declines in the national product, while the share of industry and service sector increases. These shifts are also reflected in the changing structure of investments. **Second**, with development process, industries with higher capital intensity like energy and manufacturing are likely to attract more investment. **Third**, there are policy induced priorities which may shift investment away from some sectors. For instance, neglect of agriculture in policy priorities may lead to decline in its investment share. Further, like shifts in the share of investments among productive sectors, there may also be shift in the relative share of investments in public and private sectors. For instance, economic reforms and diminished role of state in productive sectors has brought about decline in the share of public investment, compared to the share of private investment which increased substantially (vide Table 3.4).

Table 3.5: Structure of Gross Capital Formation by Industry of Use: 1950-51 – 2004-05

(Percentage Distribution)

Sl. No.	Productive Sector	1950-51	2004-05
(1)	(2)	(3)	(4)
1	Agriculture, forestry & fishing	19.3	7.8
2	Mining and quarrying	0.9	1.7
3	Manufacturing	19.2	34.8
4	Electricity, gas & water	2.2	8.1
5	Construction	0.6	2.0
	A. Commodity Sector (1 to 5)	42.2	54.4
6	Trade, hotels & restaurants	12.4	3.7
7	Transport, storage and communication	12.7	12.6
8	Finance, insurance, real estate & business services	21.3	13.8
9	Community, social and personal services	11.3	13.5
	B. Non-Commodity Sector (6 to 9)	57.8	45.6
	Total	**100**	**100**

Source: *Datt and Sundaram (2008).*

Check Your Progress – 3

1. How does Lewis explain the central problem in the theory of economic development?

   ....

   ....

   ....

   ....

   ....

2. Explain savings behaviour in the Indian economy during the last two decades.

   ....

   ....

   ....

   ....

   ....

3. Explain the changes in the structure of investments in the Indian economy during 1950-51 and 2004-05.

....

....

....

....

3.5 NATURE OF OUTCOMES OF GROWTH AND DEVELOPMENT

There is now a wider recognition that economic growth is not an end in itself but only a means for improved conditions of living. The critical concern now is therefore with the results or outcomes of growth. Whether growth has brought about reduction in poverty? Are we moving towards eradication of poverty? Whether growth has brought about reduction in employment? Or, is there increase in employment? If, yes, what type of employment and with what effect on condition of living? Is growth leading to reduced inequalities? Are regional disparities declining? These are the important questions in understanding the nature and impact of growth. With a view to focusing on the implications of growth on the different aspects of development, as stated earlier in Unit 1 (section 1.2), the UNDP Human Development Report of 1995, had advocated that the following five types of growth are not desirable: (i) Jobless growth, implying a growth profile which does not imply expansion of employment; (ii) Ruthless Growth, implying growth that increases inequalities; (iii) Futureless Growth, referring to growth that destroys environment and ecological balance; (iv) Voiceless Growth, implying growth that does not expand the level of empowerment of the deprived sections of the society, such as, women, tribals, scheduled castes etc.; and finally (v) Rootless growth, implying growth, which destroys cultural roots and life styles of a society.

We have already discussed earlier (in Unit 1, section 1.5.3) issue of employment and unemployment, here we shall discuss the issues of poverty, income distribution and regional disparities in India.

3.5.1 Poverty in India

Beginning with the early 1970s, there have been a number of individual and official estimates of poverty in India. Most of them are based on the household consumption expenditure data collected every five years by the National Sample Survey Organisation (NSSO). The generally accepted norm of poverty is a minimum level of living often indicated in terms of certain minimum calorie (energy) consumption. The so-called ‘income poverty line’ is derived first by determining the minimum energy or calorie requirements, then convert them into physical quantities like cereals, pulses, milk etc. and then estimate their monetary equivalents in terms of the prices of commodities prevailing in the market. The resulting minimum per capita consumption expenditure required is expressed as the 'poverty line'. In India, poverty lines are estimated separately for urban and rural areas as well as for the country as a whole.

In 1989, the Planning Commission constituted an 'Expert Group' to consider the methodological and computational aspects of estimating the number of poor in India. The Report of the Expert Group (1993) recommended certain norms for the calculation of poverty level consumption standards. It suggested a minimum monthly per capita consumption expenditure of Rs. 49 for rural areas and Rs. 57 for urban areas. This was anchored on the recommended per capita daily intake of 2,400 calories for rural areas and 2,100 calories for urban areas. The Expert Group recommended that these norms may be adopted uniformly by all states.

The official estimates of poor in India are broadly based on the recommendation of the Expert Group. There are, however, a number of deficiencies in the official estimates. **First**, in a country of vast regional differences, using a uniform national average price index has distorted the estimates of poverty level in different states. **Second**, the official estimates are based merely on adjusting for the price changes without any reference to the changed consumption basket, and the changed expenditure requirements to meet the minimum calorie or energy norms. **Third**, the official estimates based sometimes on 'thin sample' and different 'recall period' are often not comparable and are therefore misleading.

There are a number of alternative estimates of poverty in India estimated by individual scholars. Table 3.6 presents the official estimates of poverty in India.

Table 3.6: Estimates of Poverty in India

(percentages of poor below poverty line)

Year	Rural	Urban	All
1973-74	56.4	49.0	54.9
1977-78	53.14	45.2	51.3
1983	45.7	40.8	44.5
1987-88	39.1	38.2	38.9
1993-94	37.3	32.4	36.0
2004-05	28.3	25.7	27.5

**1999-00 data is not given since it is based on a different recall method and not comparable.*

Sources: i. Ministry of Finance, GOI, Economic Survey 2000-01 and
ii. Planning Commission, Press Release March, 2007.

Independent estimates of poverty based on the same source of data (NSSO) differ from the official estimates due to differences in the methodology adopted (e.g. using different price indices for States, making adjustments for differences in recall period, etc.). Notwithstanding these differences, over a period of roughly 20 years between 1973 and 2004, there has been a sharp decline in poverty. Since 1993-94, there has been decline in the absolute number of poor both in rural and urban areas. However, in the reform period, beginning with the 1990s, there has been slowing down of the rate (speed) of decline in poverty. During the pre-reform period between 1983 and 1993-94, poverty ratio declined at the annual rate of 0.85 percentage points, while the corresponding rate of decline in the reform period of 1993-94 and 2004-05 was 0.70 percentage points. Another dimension of change is the growing gap in the poverty levels of backward States and relatively fast growing States.

Apart from problems of measurement associated with the poverty estimates, there is a growing realisation that poverty is a multidimensional problem and a mere reduction in the headcount ratio may not indicate a real picture of the problem. Poverty is increasingly concentrated in poorer states, rural areas and among weaker communities. These communities not only suffer from low levels of consumption but also multiple deprivations like lack of access to education, better health, housing and living facilities. There is, therefore, a growing shift in poverty studies to deal with multiple dimensions of the problem.

3.5.2 Income Distribution in India

Though India has an extensive and comprehensive statistical system, there are no official statistics on income distribution. Therefore, much of the discussion on inter-personal income distribution is carried on the basis of the household consumption expenditure data collected by the National Sample Survey Organisation (NSSO) every five years. Consumption expenditure, as we know, as a share of household income progressively declines with increase in income levels. Yet, it is also true that absolute consumption expenditure increases with the level of income. It is for this reason that we use the distribution of per capita monthly consumption expenditure as a proxy for income distribution.

The popular measure of income inequality is in terms of Lorenz Curve or Gini Coefficient. Gini Coefficient ranges from 0 to 1; the larger the coefficient, the greater the inequality. Thus '0' Gini Coefficient represents perfect equality, and 1 represents perfect inequality. Therefore, to measure income inequalities in India, we use the Gini ratios of distribution of per capita monthly consumption expenditure. Since early 1980s, India has been experiencing high growth rates. In the pre-reform period between 1983 and 1993-94, there was marginal decline in inequalities both in rural and urban areas. The Gini ratio of monthly per capita consumption expenditure (MPCE) in rural areas declined from

0.31 to 0.29. However, the difference between rural and urban MPCE increased. The ratio of rural MPCE to that of urban declined from 0.66 to 0.61 during this period.

In the post-reform period between 1993-94 and 2004-05, inequalities in income distribution of both the rural and urban areas have increased. There was also further increase in income disparities between rural and urban areas. The Gini ratio of rural MPCE increased marginally from 0.29 to 0.30. For urban areas too it increased marginally from 0.35 to 0.36. The ratio of rural MPCE to urban MPCE further declined from 0.61 to 0.56. Thus, although economic reforms have brought about high economic growth rates, the income distribution is worsening. Further, although there has been poverty reduction, it has been on a slower rate. The poor have improved their consumption marginally, but the rich have become richer with the result that there is growing income inequality between the rich and the poor.

3.5.3 Regional Disparities in India

In a federal structure like that of India, it is essential to ensure that economic development brings about balanced regional development. But in India, even after more than fifty years of planed economic development, there has been no tendency towards balanced development. Over the years, especially during the past two decades, there has been growing inter-state disparities in India. More developed states like Punjab and Haryana have a per capita development expenditure of about two and a half times the level of less developed states like Bihar. In the post-reform period, most of the investments have been flowing to relatively better developed states, starving poorer states of fresh investments. There have been efforts to infuse more investment to backward states by a system of incentives introduced. The National Development Council appointed two Working Groups [called Pande (1968) and Wanchoo (1968) Groups respectively], to identify industrially backward states and Union Territories and another to recommend fiscal and financial incentives for starting industries in backward areas. Based on their recommendation, 246 districts were designated backward and made eligible for concessional finance and other facilities. Examining the role of fiscal and financial incentives in stimulating industrialisation of backward areas, the Wanchoo Working Group recommended: (i) granting of higher development rebate to industries located in backward areas, (ii) granting of exemption from corporate income tax for a period of five years, (iii) exemption from import duty on plant and machinery imported for location of industries in backward districts, (iv) exemption from excise duties and sales tax for a period of five years, and, (v) provision of transport subsidy. The impact of these measures have, however, not been assessed properly. Most of these fiscal and financial incentives have also since been withdrawn. The post-reform era is known for states competing for growing private corporate investments of both foreign and domestic origin. Most of these investments are cornered by a few developed States in the South and North-West region, leaving the Central, East and North-East regions much behind.

The Eleventh Five Year Plan recognises that growth performances across states have been varied and the performance of poorer states with poorer infrastructure has been lagging behind. The Eleventh Plan accords highest priority to improving connectivity to the North Eastern States by upgrading transport infrastructure. It is also proposed to launch a Backward Regions Grant Fund to be used for investment in identified backward districts.

Check Your Progress – 4

1. Discuss the nature of declining poverty in India since 1993-94.

   ....

   ....

   ....

   ....

2. How is the income distribution measured in India? What are its trends in recent years?

   ....

   ....

   ....

   ....

3. What are the trends in regional disparities in India? What are the measures to combat the same?

   ....

   ....

   ....

   ....

3.6 LET US SUM UP

We began with the understanding that an economy consists of broadly three economic sectors, viz. primary, secondary and tertiary. As economic development takes place there will be changes in the economic structure. The historical experience of the developed countries shows that with growth in the national income the economic structure changes from being predominantly agricultural to industrial. With further progress, the services account for major share in output and employment.

In the case of India, we have seen that while there has been a structural change over the past more than fifty years, it is not exactly on the lines of the experience of developed countries. **First**, though the share of agricultural sector in the national income drastically declined (and presently it accounts for the lowest share), the share of agriculture in the total workforce still remains the largest. **Second**, the share of industrial sector, both in output and employment, has remained low. **Third**, the share of service sector output has increased much faster than that of the industrial sector, although in employment its share is just about 22 percent. The question that is raised therefore is: whether development with such a low share of industrial sector share is desirable and sustainable in the long run?

The unit has also looked at the main factors behind economic growth in India and has observed that there has been a relatively faster growth in savings and investment in recent years. This shows that the macro economic fundamentals behind the present growth process in India is strong. But in case of outcomes on the fronts of poverty reduction, income distribution and regional disparities, the picture is less satisfactory.

3.7 KEY WORDS

Economic Sectors : Economy is normally divided into three sectors viz. primary ('agriculture'), secondary ('industry') and tertiary ('services').

Economic Structure : In terms of growth and development, it refers to relative position (shares) of primary, secondary and tertiary sectors in national output and employment.

In terms of institutional arrangement, it refers to the role of state and market in the economy.

Structural Change : Changes in the composition of national output and employment in sectoral terms.

Gini Coefficient : Statistical measure of inequality. It measures the gap between perfect equality and the actual equality. Higher the coefficient greater is the inequality and vice versa.

Poverty Line : A monetary indicator of normative minimum per capita consumption requirement, below which one is categorized as 'poor'.

3.8 SELECTED BOOKS FOR READING

GOI, Ministry of Finance, *Economic Survey* 2007-08, 2008.

Mahendra Dev, *Inclusive Growth in India: Agriculture, Poverty, and Human Development*, OUP, New Delhi, 2008.

Moshe Syrquin, "Patterns of Structural Change" in *Handbook of Development Economics*, Vol. I, Edited by H.B. Chenery and T.N. Srinivasan, Elsevier Science Publishers, 1988.

Norman Gemmel, *Structural Change and Economic Development: Role of Service Sector*, Mac Millan, 1986.

Ruddar Datt and K.P.M. Sundaram, *Indian Economy*, 57th Edition, 2008, S.Chand, New Delhi.

3.9 ANSWERS/HINTS TO CYP EXERCISES

Check Your Progress – 1

1. See 3.2.1 and answer.
2. See 3.2.1 and answer.
3. See 3.2.2 and answer.

Check Your Progress – 2

1. See 3.3 and answer.
2. See 3.3 and answer.
3. See 3.3 and answer.

Check Your Progress – 3

1. See 3.4 and answer.
2. See 3.4 and answer.
3. See 3.4 and answer.

Check Your Progress – 4

1. See 3.5.1 and answer.
2. See 3.5.2 and answer.
3. See 3.5.3 and answer.

UNIT 4 PLANNING, GOVERNANCE AND INSTITUTIONS

Structure

4.0 OBJECTIVES

After going through this unit, you will be in a position to :

- explain the basic strategy of five year plans over the era of planning;
- discuss the target and achievement of growth-oriented objectives in each five year plan;
- review the major economic policies and the shifts in policies leading to initiation of economic and institutional reforms in 1991; and
- provide an outline of the policies and changes in economic performance during the period of implementation of Economic Reforms in the country.

4.1 INTRODUCTION

One of the major concerns during the period of freedom movement in India was poverty and under-development of the country due to exploitation under the colonial rule. One of the major objectives of freedom struggle was, therefore, to liberate India from colonial rule and chart out a course towards rapid development. There was widespread consensus among the political leadership and the indigenous business community that free India would embark on rapid industrialisation with substantial state investment in heavy industry as well as infrastructure. Thus when planning process in India began, the public sector occupied the commanding heights of investment. Second, given the primacy of public sector, the strategies and priorities under each plan were decided based on the immediate economic conditions. However, by early 1980s, there were challenges to planning process that raised questions about the basic policies and strategies that had a heavy bias in favour of the role of state, not only in respect of investment, but also in respect of regulation and control of private sector. The major policies were subjected to review by a number of committees set up during the late 1970s and early 1980s. The outcome was a shift in economic strategies towards economic reforms and market driven growth, and towards reduced role of state with declining share of public investment even in plan investment. This unit outlines the growth performance in each plan, the shifts in plan priorities and strategies, and the shifts in major economic policies leading to the present regime of economic reforms with a central place to market induced investment and growth.

4.2 PRIORITIES AND STRATEGIES OF FIVE YEAR PLANS

As mentioned earlier, the emphasis on sectoral priorities and strategy of development under each plan is often dictated by the economic exigencies of the period. Over a period of time, there was also change in the overall policy framework and the relative roles of public and private investment. To capture these broader shifts, this section is divided into two parts. The first part deals with the first six plans and the second part with the seventh to eleventh five year plan.

4.2.1 First to Sixth Five Year Plan

Formulation of the First Five Year Plan (1951-56) was done in the face of major problems which needed immediate attention. First, partition of the country resulted in huge influx of refugees who had to be rehabilitated. Second, there was severe shortage of food grains, that needed to be addressed on priority. Third, there was growing inflation that had to be contained. A positive factor was the availability of foreign exchange reserves which could be used to meet the needs of growing food and other imports. The strategy of the First Plan was rapid development of agriculture in order to move towards food self-sufficiency. Priority to agriculture was thus placed within the broad objective of all-round balanced development.

The Second Plan (1956-61) was conceived in an atmosphere of stability. Agricultural targets of the First Plan were met. Prices were stabilised. It is in this atmosphere, that the Second Five Year Plan was aimed at giving a big push to industrialisation. The Mahalanobis model with thrust on heavy industries became the strategy of the Second Plan. The political party in power adopted a resolution to move towards a Socialistic Pattern of Society. This was reflected in the Industrial Policy Resolution, 1956 that spelt out the primacy of public sector in the basic, heavy and strategic industries, and laid the foundation for regulation of the private sector.

By the end of the Second Plan, there were clear signs of agricultural growth lagging behind and food production falling short of demand. Therefore, the Third Five Year Plan assigned higher priority to agriculture, besides giving emphasis on self-reliance and basic industries. But the Plan priorities received a set back because of diversion of resources to meet the border conflicts with China in 1962 and later Pakistan in 1965. In fact, the entire planning process was disturbed not only by the wars, but also due to the nation-wide severe drought and stagflation (i.e. low growth with high inflation) for two years - 1965-67 and 1967-68. Food grain production suffered severely and food imports reached peak levels of about 12 million tones per annum. The economy faced severe foreign exchange crisis. The original draft outline of the Fourth Plan was abandoned in 1966 and a kind of ‘Plan Holiday’ was introduced. Amidst this, in 1966, rupee was devalued and there was a brief period of resort to deregulation and induction of market forces. However, by 1968, there was a return to the strategy of controls and subsidies with state interventions. During the period of ‘Plan Holiday’, three Annual Plans (1966-69) were implemented. The mid-1960s, thus, experienced not only the worst economic crisis but also political crisis. The political response was to bring about radical reforms like bank nationalisation and stricter regulation of monopolies and foreign exchange. With this background the Fourth Plan (1969-74) set itself, in principle, the objectives of growth with stability and social justice. The aim was the progressive achievement of self-reliance with emphasis on improving the conditions of weaker sections of the community. The programmes for the latter came to be known as ‘Garibi Hatao’ (Removal of Poverty). The Fourth Plan saw substantial emphasis on agriculture in which ‘Green Revolution’ technology started taking roots showing improvements in food production.

The owes of the economy which began in the mid-1960s continued into the 1970s. The Fifth Plan (1974-79) was introduced at a time when the country was reeling under severe inflation fuelled by the ‘oil shock’ of 1973. There was a great deal of debate on the appropriate strategy of the Fifth Plan. Finally, two main objectives viz. removal of poverty and attainment of self-reliance, emerged as priorities. The objectives were to be achieved through promotion of higher rate of growth, better distribution of income and a significant step-up in the domestic rate of saving. But because of political changes, the Plan was terminated by the Janata Party which came to power in 1977. The new Plan was supposed to shift emphasis from the Nehruvian heavy industry to decentralised industrial development with emphasis on small and household industries and employment generation. During 1978-79, the country has had huge accumulation of foreign exchange reserves as a result of massive inflow of remittances from the Indian workers, who had gone to the middle east region. The committee on Import-Export Policies and procedures, set up in 1977, recommended gradual liberalisation of the import regime and inducted a shift towards a strategy of export promotion and domestic liberalisation. Thus, the basic beginning of liberalisation policy regime had begun in the late 1970's. It was during this period that the approach of 'rolling plan' was inducted, thereby, diluting the rigour of the erstwhile approach of 'Five Year Plans'. Subsequently, the Sixth Plan got its new incarnation (1980-85) when the Congress Party came back to power in 1980. The strategy once again shifted to a direct attack on poverty by creating conditions of an expanding economy.

4.2.2 Seventh to Eleventh Five Year Plan

Beginning of 1980s marked a turning point in the growth performance of the Indian economy. The economy broke out of the much vexed so called 'Hindu Rate of Growth' of 3.5 per cent and hitch-hiked to a higher growth path. The Sixth Plan (1980-85) experienced an annual growth rate of 5.4 per cent. By the end of the Sixth Plan the country almost reached self-sufficiency in food grains production. The Seventh Plan (1985-90) was formulated under conditions of optimism towards sustained high level growth. Certain measures of liberalisation were initiated in trade and industrial policies. The main objectives of the Plan were: accelerated growth of food grains production, increase in employment opportunities and improvement in productivity levels. For the first time, the Seventh Plan placed employment at the centre by incorporating the words: 'The central element in the development strategy of the Seventh Plan is the generation of productive employment'. To tackle an estimated number of unemployed (openly unemployed plus severely underemployed in need of alternative jobs) placed at 23 million in 1992, and an expected addition to the labour force of 35 million during 1992-97 and another 36 million during 1997-2002, the Plan set a target of 2.6 to 2.8 per cent annual growth of employment with a view to achieving the goal of 'employment for all' by 2002.

The approach to Eighth Plan went through several revisions because of unstable political situation and changing governments at the centre. Finally, the fourth version of Eighth Plan (1992-97) was approved under conditions of severe economic crisis, high rate of inflation, meagre foreign exchange reserves, widening budget deficits, rising debt burden and recession in industry. Further, the background of the introduction of Eighth Plan was also marked by initiation of economic reforms in all sectors. The year 1991 is regarded as a water shed in the policy regime of India, since it marked the beginning of a new era of reforms, with extensive liberalisation in the domestic and international policy regimes. Liberalisation, Privatisation and Globalisation, together, defined the framework of the new policy regime of radical reforms with market-driven paradigm of development. The Plan emphasised high growth and employment generation. For the first time, employment was considered to be important enough a subject to merit an independent chapter in the Plan document.

The Ninth Plan (1997-2002) also witnessed delays and modifications in its finalisation. When it was finally approved, almost two years after the process was underway, it emphasised 'growth with justice and equality'. It was pitched at a high targeted growth rate of 7 per cent per annum. The Plan expected to generate more employment through agriculture and rural development. But the Plan performance was a disappointment with a very poor growth of agriculture and reduced overall GDP growth of 5.35 per cent per annum. At the formulation of the Tenth Plan (2002-07), there was concern about slow growth of employment and poor agricultural growth threatening the sustainability of food production. In spite of reasonably high growth performance of about 5.7 per cent GDP growth rate over the decade of 1990s, the rate of decline in poverty decelerated compared to 1980s. In light of this, besides fixing a target of high growth rate of 8 per cent for the Plan, emphasis was laid on reduction of poverty and creation of additional gainful employment. For this purpose, agricultural development was viewed as the core element. Social sector, especially universal primary education and reduction in infant and maternal mortality rates, were also accorded high priority.

The Eleventh Plan (2007-2012) began with an impressive Tenth Plan growth rate of 7.7 per cent per annum, the highest achieved in any plan period so far. The strengths were that savings and investment rates increased significantly. There has been positive response of industry to global competition. In view of the liberalisation of the policies in regard to foreign capital inflows and expansion of domestic capital markets, the country experienced a surge in the volume and rate of capital inflows. Exports and foreign exchange reserves reached very high levels. However, the growth is not perceived as being sufficiently 'inclusive' for many groups. The rate of decline in poverty also was not commensurate with the growth in GDP. The absolute number of poor people declined only marginally from 320 million in 1993-94 to 302 million in 2004-05. There was hardly any decline in child malnutrition. Considering these factors, the Eleventh Plan set not only a high target of 9 per cent growth rate in GDP but emphasised the need for focusing on 'inclusive growth'. The central vision of the Eleventh Plan is to initiate a development process which ensures broad-based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women. The broad vision of the Eleventh Plan includes several inter-related components like rapid growth that reduces poverty and creates employment opportunities, provides access to essential services in health and education especially for the poor and empowerment through education and skill development.

Check Your Progress 1

1. What was the basic strategy of Second Five Year Plan?

   ....

   ....

   ....

   ....

2. What was the nature of crisis faced by India in mid-1960s? And what was its impact on Planning?

   ....

   ....

   ....

   ....

3. Which was the Plan that set 'employment for all' as the objective to be achieved by 2002? What was the perceived need for focusing on it?

   ....

   ....

   ....

   ....

4. What is the Central Vision of the Eleventh Plan?

   ....

   ....

   ....

   ....

4.3 GROWTH TARGETS AND ACHIEVEMENTS IN FIVE YEAR PLANS

The discussion of Plan priorities and strategies naturally raises interest as to what actually happened during the Five Year Plans in terms of economic performance. Table 4.1 gives the targets and realisation of growth rates in the Five Year Plans. During the first thirty years of planning (1951-1980), i.e. up to the Sixth Plan, the growth performance of the economy was far below expectations, averaging about 3.5 per cent annual growth rate in GDP. With over 2 per cent growth rate of population, this period experienced about 1.5 per cent annual growth rate in per capita income. The period between 1951 and 1980 became synonymous for slow growth. Whatever the Plan targets, the realised growth rate turned out to be a low growth of 3.5%, so much so, that it began to be connotated as a period of 'Hindu growth rate'. But, the beginning of 1980s marked a turning point in the Indian economy. During the Sixth and Seventh Plans (1980-89) annual average growth rate increased to 5.6 per cent. There was a temporary set back in 1990-91 in which the growth rate achieved was a low 3.4 percent. Subsequently, however,

Table 4.1 Growth Performance in the Five Year Plans

Sl. No.	Plan Period	Target	Realisation
1	First Plan (1951-55)	2.1	3.5
2	Second Plan (1956-60)	4.5	4.2
3	Third Plan (1961-65)	5.6	2.8
4	Annual Plans (1966-68)	—	3.9
5	Fourth Plan (1969-73)	5.7	3.2
6	Fifth Plan (1974-78)	4.4	4.7
7	Annual Plan (1979-80)	—	-5.2
8	Sixth Plan (1980-84)	5.2	5.5
9	Seventh Plan (1985-89)	5.0	5.6
10	Annual Plan (1990-91)	—	3.4
11	Eighth Plan (1992-96)	5.6	6.5
12	Ninth Plan (1997-2001)	6.5	5.5
13	Tenth Plan (2002-2006)	7.9	7.7
14	Eleventh Plan (2007-2012)	9.0	—-

***Note**: The growth targets for the first three five year plans were set with respect to National Income. In the Fourth Plan, it was Net Domestic Product. The actual growth rates are in terms of GDP at factor cost. Average growth rates over a short period can be misleading because of fluctuations in agricultural output due to varied monsoon.*

***Source**: Planning Commission, GOI, Eleventh Five Year Plan 2007-2012, Vol. I, Inclusive Growth, OUP, p. 25, New Delhi 2008.*

the economy grew at a high rate of 6.5 per cent in the Eighth Plan period (1992-96). Compared to this, Ninth Plan (1997-2001) experienced a deceleration and recorded a lacklustre performance of 5.5 percent. But the economy recovered sharply to achieve a growth rate of 7.7 per cent during the Tenth Plan (2002-06). The last four years of the Tenth Plan recorded an average of about 8.7 per cent and this momentum continued into 2007-08 which was the first year of the Eleventh Plan. This experience of Tenth Plan prompted fixing of 9 per cent as the target growth rate for the Eleventh Plan.

4.4 ECONOMIC POLICIES AND SHIFT TOWARDS REFORMS

The first thirty years of planning era, with a few minor changes, was dominated by the Nehru-Mahalanobis investment strategy of primacy of public sector with an emphasis on heavy industries. The policy framework of this strategy was reflected in the Industrial Policy Resolution of 1956 which emphasised on a strong licensing and regulatory system and inward looking trade policy with import substituting industrialisation (ISI). The crisis in the Indian economy in mid-sixties saw further intensification of the role of state through nationalisation of coal, wheat, trade and tightening of controls on monopolies and restrictive trade practices and the regulation of foreign-exchange outflow. By late 1970s, there were clear signs of failure of state regulation and control as seen in terms of extensive 'rent seeking' (i.e. corruption) in the shadows for obtaining licences and permits. Corruption went hand-in-hand with tax evasion and black money. The extensive parallel economy crippled efficiency, reduced the revenues of the state and resulted in growing public debt in the absence of commensurate increase in productive investment.

The changing political conditions and the pressure of economic management necessitated a review of the existing policies. A series of Committees were appointed by the Government of India to review the existing policies and suggest measures for improvement. The result was a number of reports which initiated a shift towards liberalisation and economic reforms. This section briefly refers to some of these reports which suggested reforms on several policy fronts. These could be seen as antecedents to the major neo-liberal economic reforms introduced beginning with 1991.

4.4.1 Trade Policy

There were several shifts in trade policy but, in the initial years, there was considerable 'export pessimism', meaning that without industrialisation, India had not much to offer by way of trade to serve as engine of growth. Therefore the emphasis was on 'inward orientation' or import substituting industrialization (ISI). The first two five year plans, especially the Second, had thus accorded the thrust on heavy inward orientation. By the time of the Third Plan, importance of exports was recognised and certain 'outward orientation' to promote exports was initiated through export-subsidies. Towards the end of the Third Plan, rupee was devalued with the specific objective of making Indian goods relatively cheaper and promoting exports. But during 1966-1976, i.e. the Fourth and Fifth Plans, little attention was paid to foreign trade. It was more of crisis management than any clear policy thrust. In late 1970s, policy of import substituting industrialisation was diluted and imports liberalised to an extent.

The Report of the Committee on Trade Policies (Abid Hussain Committee, 1984) emphasised the need for balance between export promotion and import substitution. The government in mid-1980s, therefore, initiated a policy of export promotion and import liberalisation. Following this, exports increased at a record rate in the later half of 1980s, though imports did cause problems of foreign exchange shortage. Nevertheless, these shifts towards trade liberalisation in 1980s laid the foundation for the total dropping of the policy of ISI in 1991 and move towards liberalisation of trade as a part of overall economic reforms.

4.4.2 Fiscal and Trade Policies

Fiscal policy plays an important role in economic development. Through fiscal policy, the Government creates and sustains the public economic policies consisting of the provision of public services through public investment. It is also an instrument for reallocation of resources according to national priorities, achieve redistribution, promotion of private savings and investments, and maintenance of stability.

During the first thirty-five years of India's planning, the achievement of mobilisation through tax revenue apparently was satisfactory. But it posed several problems when one probed from the point of view of equity and efficiency. First, let us look at the positive side. The tax-GDP ratio increased from 7% in 1950-51 to 17 % in 1984-85. For a country with low income and relatively slow growth of about 1.5 percent in per capita income during this period, tax mobilisation effort could be considered commendable. Except land revenue and personal income tax, all taxes performed very well. In the context of Five Year Plans, targets set for additional resource mobilisation were over-fulfilled.

On the negative side, there has been extensive tax evasion and 'black economy' became pervasive. One of the main reasons cited for tax evasion and generation of black money was high effective rates of taxation. Besides loss of revenue, tax evasion reduced built-in elasticity of the tax system and constrained tax reforms. Another problem that arose was the erosion of equity. The share of direct taxes, in total tax revenues, had fallen from 37 percent in 1950-51 to 15 percent in 1984-85. And the share of personal income tax dropped from 21 percent to 5 percent over the same period. It is well-known that taxes like personal income tax have an important redistributive role in the tax structure, and cannot be substituted by indirect taxes on commodities.

In 1977, a high powered committee was set up under the chairmanship of Dr. P.C.Alexander, the then commerce secretary, for reviewing the nature of import-export policies and procedures. Based on the recommendations of this Committee's Report, a beginning was made to liberalise the import regime in the late 1970s. By mid-1980s, tax evasion and the related black economy came to be attributed to the controls and regulations as much as to the very high levels of personal income taxes and complex commodity taxation system. The submission of a number of influential reports prepared under Government auspices, including the Report of the Committee to Examine Principles of a Possible Shift from Physical to Financial Controls (the Narasimham Committee 1985), the Report of the Committee on Trade Policies (the Abid Hussain Committee 1984), a series of reports prepared by the Economic Administration Reforms Commission (L.K. Jha 1984-86), the Report of the Working of the Monetary System (the Chakravarthy Committee 1985) and the Report on the Black Money by National Institute of Public Finance and Policy (NIPFP) resulted in certain bold initiatives taken on fiscal policy front. These developments suggested the following type of changes in the fiscal policy:

i. a systematic effort to simplify both tax structure and tax laws,

ii. a deliberate shift to a regime of reasonable direct tax rates and better tax administration, and

iii. the fostering of a stable and predictable tax policy environment.

The Long Term Fiscal Policy (1985) incorporated these changes and many more measures to improve tax administration, paving the way for greater tax reforms later. Reforms in the trade policy regime implied, elimination of the import licensing system, and import quota systems, reduction in the tariff rates , gradual reduction of export subsidies and opening up of the economy for imports and capital flows. These reforms generated a new wave of competitive environment in the economy and combined with the liberalisation of domestic policy systems, the economy was poised to enter into a new era of high growth and market-driven paradigm of development.

4.4.3 Monetary Policy

Since Independence, the Indian monetary system has helped in the resource mobilisation for the implementation of Five Year Plans. It has also attempted to control the inflationary process inherent in economic development. With several vibrant changes taking place beginning with the 1980s, the Reserve Bank of India wanted a fresh look at the Indian monetary system and towards this end appointed a Committee in

December 1982 with Sukhamoy Chakravarty as its Chairman to review the working of the Indian monetary system.

According to the Chakravarty Committee Report (submitted in 1985), the operation of monetary system should be consistent with plan priorities, so that the process of mobilisation of savings and utilisation of these resources, became socially purposive. Though savings in the country increased from 10 percent to 23 percent between 1950-51 and 1983-84, it was not adequate to finance public sector investment. Hence the Government of India was forced to resort to deficit financing creating inflationary pressures in the economy. The Committee emphasised financing Five Year Plans in a non-inflationary manner by:

i. tapping the savings of the public in a greater measure than in the past, which could be done by raising the yield from government bonds;

ii. raising higher savings from the public sector enterprises, and

iii. improving efficiency in both revenue gathering and expenditure functions.

Other important recommendations of the Committee related to monetary targeting, change in the definition of budgetary deficit and interest rate policy. Most of the recommendations of the Committee were accepted by the GOI by late 1980s.

4.4.4 Banking and Financial Sector Policies

One of the major landmarks in the Indian banking sector was the nationalisation of banks in 1969. Since then, there has been spectacular geographical and functional spread of banking and financial sector in the country. However, over the years, several distortions have crept into the banking and financial system in mobilising resources and extending credit. Several public sector banks and financial institutions had become weak and some public sector banks had been incurring losses year after year. To take measures to rectify this situation, the Government of India appointed a high level Committee on the Financial System under the Chairmanship of M. Narasimham in 1991.

The Narasimham Committee (1991) made recommendations which have come to set in motion major reforms in the financial system. The recommendations were aimed at: (i) ensuring a degree of operational flexibility, (ii) internal autonomy for the public sector banks, and (iii) greater degree of professionalism in banking operations. Some of the major recommendations of this committee are:

i. reduction of Statutory Liquidity Requirements (SLRs) as well as Cash Reserve Ratio (CRR). In the view of the Committee, high SLRs and CRRs are idle lock up of productive resource of the banks.

ii. phasing out of directed credit programmes, which meant withdrawing differentiation of ‘priority sector’. According to the Committee, agriculture and small industry had already grown to a mature stage not requiring any special support.

iii. the level and structure of interest rates should be broadly determined by market forces.

iv. bring about greater efficiency in banking operations by a substantial reduction in the number of public sector banks through mergers and acquisitions.

Because of the politically sensitive nature of the recommendations, many of the recommendations like removing ‘priority sector’ status, and mergers have not been put into force. However, the SLR has been reduced from 38.5 percent to 25 percent. Similarly, CRR was reduced from 15 percent to 5.5 percent. The merger proposals were partially implemented in the case of Regional Rural Banks (RRBs). The RRBs were allowed to extend their services to non-weaker sections with interest rates realistic to market rates. One more Committee under the same Chairman was appointed in 1998 to look into the needs of further reforms.

Check Your Progress 2

1. Which is the period of ‘Hindu growth rate’ and why is it called so?

   ....

   ....

   ....

   ....

2. Which is the period when the need for balance between export promotion and import substitution was felt and adopted as trade policy? What was the basis for this measure?

   ....

   ....

   ....

   ....

3. What were the causes for the rise and perpetuation of ‘black economy’ in the Indian economy?

   ....

   ....

   ....

   ....

4. What were the recommendations of Chakravarthy Committee for non-inflationary financing of plans?

....

....

....

....

5. What were the major recommendations of Narasimham Committee (1991)?

....

....

....

....

4.5 ECONOMIC REFORMS

As seen from the above explanation, owing to a number of changes in economic policies, the decade of 1980s not only witnessed a higher growth period, breaking away from the low growth path of three decades, but also ushered in a period of substantial rethinking and reformulation in the planned regime of economic development. In this section, we briefly discuss, first, the changes in 1980s which came to be known as New Economic Policy and then major changes that were subsequently introduced in 1991 under what is known as the period of 'Structural Adjustment and Economic Reforms'.

4.5.1 New Economic Policy

The shifts in policies which began in 1980 and gained momentum, in mid-1980s, marked new trends away from the Nehruvian framework of dominant public sector and greater regulation of the private sector. These policy changes, particularly under Rajiv Gandhi regime, came to be known as New Economic Policy which provided greater role for private sector. The new policy made a number of changes in industrial licensing, export-import policy, foreign capital equity, removal of controls and restrictions, rationalising and simplifying the system of fiscal and administration regulation. Under the New Economic Policy, the government turned towards dismantling the edifice of controls and provided greater scope for unfettered expansion of private corporate sector, including the multi-national enterprises.

4.5.2 Structural Adjustment and Economic Reforms

When the Congress Government assumed power at the Centre in June 1991, the country was under a serious economic crisis. The three major problems were the balance of payments crisis, high rate of inflation and huge public debt. The liberalised trade policy in 1980s resulted in undue increase in imports. By 1990-91, the balance of payments situation became precarious and the foreign exchange reserves depleted to a level which was hardly adequate to meet import payments for a few weeks. The rate of inflation reached an unprecedented level of about 17 percent. The public debt, including external borrowings, rose to a level of 60.6% of GDP and the interest payment alone amounted to 21.4% of GDP.

Under the shadows of this economic crisis, Government of India sought external assistance which came from International Monetary Fund (IMF). The assistance was accompanied by a package of conditionalities that insisted on 'structural adjustment' measures. Structural adjustment, in simple terms means, adjustment of the role of institutions in economic management. The two major economic institutions are **state** and **market**. Therefore, structural adjustment means a shift in the dominant role of the state and public sector to a regime where market and the private sector would play the dominant role. Under the economic reforms, the major thrust was to reduce the investment and regulatory role of state and increase the room for free play of market forces by dismantling protective measures on trade and controls on domestic and foreign investment in economic activities.

The immediate steps towards overcoming the economic crisis included devaluation of rupee by 22%, liberalisation of trade policy and measures to control fiscal deficit by cutting down public expenditure. A series of liberalisation, privatisation and globalisation (LPG) measures followed. The Government justified these measures as needed for achieving: (i) increased efficiency and competitiveness of industrial production, (ii) much greater utilisation of foreign investment and technology than in the past, (iii) improved performance of public sector and (iv) for modernising the financial sector.

The second wave of economic reforms followed in almost all economic policies and strategies. Fiscal policy aimed at reducing fiscal deficit by regulating public expenditure in general. Towards this end, streamlining public sector by methods like disinvestment and privatisation, and withdrawal of budgetary support to public sector, wherever necessary, were adopted as the approach in the policies followed. Monetary policy aimed at controlling inflationary pressures and achieving improvement in balance of payments position. In price policy, the measures involved progressive reduction of subsidies and promotion of more flexible price structure. To control prices, the emphasis was laid more on competition than on regulation and budgetary support through subsidies. The immediate and major changes under economic reforms were in policies relating to trade, industry, foreign investment, and public sector. On the trade policy front, besides reduction in tariffs, there was a gradual shift from quantitative restrictions to tariff based system. By April 2001, all quantitative restrictions were abolished.

Industrial Policy 1991

The Industrial Policy announced on July 24, 1991 included the following reforms:

i. Industrial licensing was abolished for all projects except a shortlist of 15 industries related to security of strategic or environmental concerns.

ii. The regulation under Monopolies and Restrictive Trade Practices (MRTP) Act were relaxed in a manner that there was hardly any need to get Government approval for expansion or starting new venture.

iii. The areas hitherto reserved for public sector were drastically reduced and even some areas reserved for public sector was thrown open to private investment.

Foreign Investment Liberalisation

Foreign investment in industry and services were liberalised to an extent of:

i. 40% equity, relaxed up to 51% in a wide range of industries. Subsequently, this was raised further to 100% for many industries.

ii. Automatic royalty payments to foreign technology were allowed up to 5% to domestic sales and 8% of export sales.

4.5.3 Institutional Reforms

As we have observed, India's development process began in the framework of planning with focus on import substitution and domestic protection. This strategy had necessitated the setting up of a number of institutions for 'controlling' imports, 'regulating' capital flows and domestic investments. There was the institution of 'Chief Controller of Imports and Exports' (CCI&E), Director general of Technical Development (DGTD), Controller of Capital Issues in the Ministry of Finance etc. However, with the induction of radical policy reforms, since 1991, many such institutions of the earlier policy regime had become redundant. The office of CCI&E was reconstituted with a different focus on export promotion and import management (instead of import controls) and was called as Directorate General of Foreign Trade (DGFT). The DGTD was abolished. The institution of MRTP (Monopolies and Restrictive Trade Practices) has been replaced by a new Competition Act in 2002 and a new institution called Competition Commission of India has been set up. A new body called Securities and Exchange Board of India (SEBI) has been set up to monitor and regulate the capital market operations.

Since 1995, the World Trade Organisation (WTO) has been set up at the global level, in place of the earlier GATT and this has implied many radical changes in the policies and institutions at the national level as well.

In regard to the structure of Governance, there has been a major shift towards decentralisation of governance with the 73rd and 74th amendments of constitution making the Panchayat Raj system an important system of governance in the country.

The challenges of 'corruption', 'inefficiency', inter-regional and interpersonal inequalities, empowerment, 'failures' of the state and 'failures' of the market continue to plague the system thereby necessitating a constant review of the administrative and governance systems in the country. As a response to meet these challenges, the Government of India has recently set up an 'Administrative Reforms Commission' to review the entire institutional framework of governance in the country.

Public Sector Reforms

The major changes in the public sector reforms were:

i. The number of industries reserved for public sector was reduced from 17 to 8. Even in the reserved areas, private sector participation was allowed selectively. Joint ventures with foreign companies was encouraged.

ii. Public sector enterprises, that were chronically sick would be referred to Board for Industrial and Financial Restructuring (BIFR) and closed or privatised if necessary.

iii. there would be increasing emphasis on profitability and rate of return, and budgetary support to public enterprises would be progressively reduced.

iv. Loss making enterprises would be considered for privatisation and selective disinvestment would be introduced to strengthen the resource position of public enterprises. The Disinvestment Commission was established for deciding on the selection and modalities of equity dilution.

Following the implementation of the above measures, there has been a drastic shift in the overall investment level in favour of private sector. Table 4.2 shows that even in the Plan outlays, the balance has shifted drastically in the post-1991 years in favour of the private sector.

Table 4.2 Plan Outlays in the Public and Private Sector

(Percentages)

Plan	Public Sector Outlay	Private Sector Outlay	Total
First Plan (1951-56)	53.5	46.5	100
Second Plan (1956-61)	60.8	39.2	100
Third Plan (1961-66)	64.7	35.3	100
Fourth Plan (1969-74)	63.9	36.1	100
Fifth Plan (1974-79)	69.7	30.3	100
Sixth Plan (1980-85)	61.4	38.6	100
Seventh Plan (1985-90)	51.7	48.3	100
Eighth Plan (1992-97)	34.7	65.3	100
Ninth Plan (1997-2002)	29.0	71.0	100
Tenth Plan (2002-2007)	22.0	78.0	100
Eleventh Plan (2007-2012)	21.9	78.1	100

Source: 1. Five Year Plan Documents.

2. Eleventh Five Year Plan 2007-2012, Vol. I, p. 28.

Public Private Partnership (PPP)

In financing and developing social and physical infrastructure, economic reforms laid considerable emphasis on public-private partnership (PPP). The PPP projects typically involve transfer or lease of public assets, delegation of government authority for recovery of user charges, operation and control of public utilities, etc. PPP again indicates the growing entry of private sector into the sphere of public sector activities.

Impact of Policy Changes

There is wide acclaim that economic reforms have put the Indian economy on the higher growth path. During the last ten years, India has emerged as one of the top ten fastest growing economies in the world. However, one of the major weaknesses recognised is that the benefit of growth are not reaching many groups which still feel excluded from the growth process.

Inclusive Growth

Conscious of the exclusionary tendencies of market driven fast growth performance, the Eleventh Plan adopts a strategy of 'inclusive growth'. The object of 'inclusive growth' is to ensure broad-based improvement in the quality of life of the people, especially the poor, SCs/STs, other backward castes (OBCs), minorities and women. While recognising the possibility of achieving higher growth rates of 9% in GDP and even 7.6% in GDP per capita, the Eleventh Plan mentions that 'the target is not just faster growth but inclusive growth, that is, growth process which yields broad-based benefits and ensures equality of opportunity for all'. But there are serious doubts whether unbridled economic reforms, that build institutional structures like commercialised education and health facilities which actually generate exclusionary processes while yielding a high growth, would facilitate in the realisation of pro-poor inclusive growth. If there are no proper institutional correctives and regulatory mechanisms, fears of vast exclusion may become a reality.

Check Your Progress 3

1. What is meant by 'structural adjustment'?

   ....

   ....

   ....

   ....

2. What were the immediate steps taken by the Government to overcome the economic crisis in 1991?

   ....

   ....

   ....

   ....

3. What were the major changes in Industrial Policy 1991, as a part of economic reforms?

   ....

   ....

   ....

   ....

4. Briefly state changes in public sector policy as a part of economic reforms.

   ....

   ....

   ....

   ....

4.6 LET US SUM UP

We have seen in this unit the changing policies and strategies of development in the era of planning from the First Plan to the Eleventh Plan. Priorities of each plan depended on the immediate concerns in the economy, and quite often, responses to meet the challenges of short term were adopted. But, over a long term, the framework or approach to planning changed. The Nehru-Mahalanobis framework for planning with an emphasis on heavy industry, import substituting industrialisation and, with a key role to public sector lasted over three decades. A shift in this approach involved a great deal of review and reformulation of policies. Though there were changes towards loosening of controls and some degree of liberalisation in 1980s, it was only in 1991 that there was a decisive shift on the policy front. This shift came about in the form of structural adjustment measures marking a change from a dominant role played by the state to a more substantial role for the market driven growth brought about by economic reforms. The experience shows that such economic policies, in a dynamic context, may bring about unexpected adverse effects too like social exclusion. There is, therefore, a need for correctives by way of regulatory institutions to ensure considerations of equity and social justice.

4.7 KEY WORDS

Mahalanobis Model : Also known as 'heavy industry' strategy. The economy is divided into two sectors, one producing capital/investment good and the other producing consumer goods. The argument is that, for long-run sustained growth of consumer goods, initial build up of investment goods sector is essential.

Garibi Hatao : 'Remove Poverty' – the thrust of Fourth Five Year Plan (1969-74).

Hindu Growth Rate : Whatever the plan targets, a persistent realisation, like Hindu 'karma', of an annual growth rate of 3.5%.

Import Substituting Industrialisation (ISI) : A strategy of industrialisation of protecting nascent domestic industry from competition by foreign industries achieved by imposing high tariffs or quantitative restrictions on imports.

Export Pessimism : Belief that without industrialisation, there would not be much scope to pursue export promotion as a strategy.

4.8 SOME USEFUL BOOKS

Charan D. Wadhwa (ed), *Some Problems of India's Economic Policy*, 2nd Ed., TMH, New Delhi, 1997.

Planning Commission, GOI, *Eleventh Five Year Plan 2007-2012*, Vol. I, Inclusive Growth, Oxford University Press (OUP), 2008.

Robert E.B. Lucas and Gustav F. Papanek (eds), *The Indian Economy: Recent Development and Future Prospects*, OUP, Delhi, 1998.

Ruddar Datt and K.P.M. Sundaram, *Indian Economy*, 57th Edition, Chand & Co., New Delhi, 2008.

Terence J. Byres (ed), *The State and Development Planning in India*, OUP, Delhi, 1994.

Uma Kapila (ed), *Indian Economy Since Independence*, 17th Edition, Academic Foundation, New Delhi, 2006.

P.R. Brahmananda and V.R.Panchamukhi (ed), *Indian Economy*, Himalaya Publishing House, 1987.

4.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. See Section 4.2.1 para 2
2. See Section 4.2.1 para 3
3. See Section 4.2.2 para 1
4. See Section 2.2.2 para 4

Check Your Progress 2

1. See Section 4.3 para 2
2. See Section 4.4.1 para 2
3. See Section 4.4.2 paras 3 and 4
4. See Section 4.4.3 para 2
5. See Section 4.4.4 para 2

Check Your Progress 3

1. See Section 4.5.2 para 2
2. See Section 4.5.2 para 3
3. See Section 4.5.2 para 5
4. See Section 4.5.2 para 7

BECE-002: Indian Economic Development: Issues and Perspectives

Block	Unit
1	**Approaches to development** UNIT 1 Alternative Paradigms of Development UNIT 2 Thoughts on Development of Select Vintage Thinkers UNIT 3 Growth and Structural Change UNIT 4 Planning, Governance and Institutions
2	**Resources for Development** UNIT 5 Monetary and Financial Resources UNIT 6 Physical, Natural and Environmental Resources UNIT 7 Demographic Features UNIT 8 National Statistical System
3	**Fiscal and Monetary Issues** UNIT 9 Monetary Policy UNIT 10 Fiscal Federalism UNIT 11 Taxation and Expenditure in India UNIT 12 Fiscal Reforms
4	**Agricultural Sector** UNIT 13 Phases in Agricultural Development UNIT 14 Impact of Green Revolution UNIT 15 Agriculture, Productivity and Farmers' Welfare
5	**Industry and Services Sector** UNIT 16 Industrial Policy and Strategy UNIT 17 Industrial Growth and Structure UNIT 18 Foreign Investment UNIT 19 Service Sector
6	**External Sector** UNIT 20 Trade and Development UNIT 21 Empirical Aspects of Trade and Balance of Payments UNIT 22 Regional Trading Arrangements UNIT 23 WTO and Challenges of New Trading and Financial Systems
7	**Social Aspects of Development** UNIT 24 Education and Health UNIT 25 Labour and Employment UNIT 26 Gender Issues of Development UNIT 27 Water and Development UNIT 28 Global Economic Crisis