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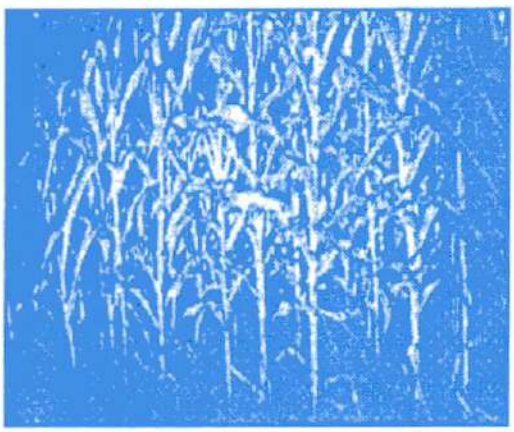
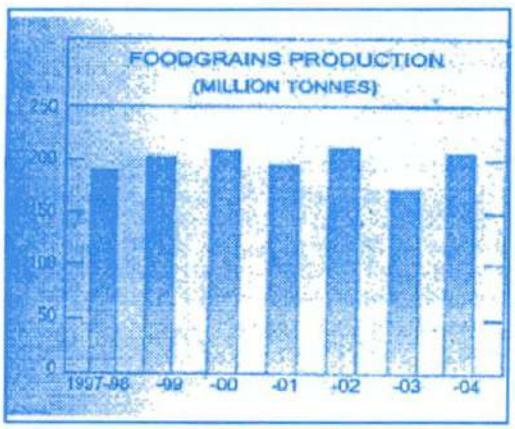
ಮುಕ್ತಗಂಗೋತ್ರಿ, ಮೈಸೂರು – ೫೭೦ ೦೦೬

KARNATAKA STATE OPEN UNIVERSITY
Mukthagangothri, Mysore - 570 006

Economics
Final Year M.A.

Indian Economic Policy





Course - 2

Block - 1

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Final M.A

Economics

Course 2

Non Welfare Issues in Welfare Economics

Block 1

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Course – II Indian Economic Policy

Block – 1 Economic Development-Athearetical Back-ground

Block Introduction

This block consists of three units. Unit-1 deals with the economic development and its determinants. (with reference to India's Economic development). Unit-2 studies the different approaches to economic development and its measurement in India. In the 3rd unit the features of the Indian economy viz, India-as underdevelopment economy, the causes for India's backwardness, India as Dualistic economy, Mixed economy and planned economy are analysed.

UNIT – 1 ECONOMIC DEVELOPMENT AND ITS DETERMINANTS

1.0 OBJECTIVES

After studying this Unit you should be able to :

Know the concept of economic development. The factors that determine the Economic Development.

The economic and non-economic factors with reference to India.

1.1 INTRODUCTION

Till the 1960s the term ' economic development' was often used as a synonym of ' economic growth' in economic literature. Now economic development is no longer considered identical with economic growth. It is taken to mean growth plus progressive changes in certain crucial variables which determine the well being of the people. There are qualitative dimensions in the development process which may be missing in the national product or product percapita. Development economists are no longer impressed by the growth performance of a country which gets reflected in the the rise in its G.D.P.(or G.N.P.) ; they Know concentrate more directly on the development process. Development goals must be defined in terms of progressive reduction and eventual eliminations of malnutrition, disease illiteracy, squalor, unemployment and inequalities.The policy measures, thus suggested are the ones which induce industrialization at the expense of agricultural development. Objectives of poverty elimination, economic enequalities reduction and employment generation are mentioned in passing reference only, and in most cases it is assumed that rapid gains in over all growth in G.N.P. or percapita national (or domestic) product would trickle down to people in one form of the other.

Concept of Economic Development

It is not easy to offer any precise and clear definition of economic development. The difficulty in defining economic development arises from the difficulty of defining common and familiar terms. The term economic development is a familiar term and it has gone into common use. Economic development indicates a process of development of agriculture, trade, transport, industry and development of irrigation and power Etc. are parts of the main process and this process is referred as economic development.

"Economic development is a process where by an economy's real national income increases over a long period of time" It is also defined that economic development means" discernable use in total and percapita income of a country, widely diffused throughout occupational and income groups and continuing long enough to become cumulative".

So economic development is a process and not a result of anything. It involves the working of certain forces which bring about economic betterment. Economic development results in increase in real national income and not merely in money income. Real national income refers to the country's total out put of final goods and services expressed not in money terms but in real terms. We have consider both consumer goods index and capital goods index. The increase in net national product must be sustained increase as it should occur over a long period.

Having realized that about 40 percent of the developing world's population had not benefited at all from economic growth during the 1950s and 1960s an increasing number of economists called for the rejection of the narrow definition of economic development. During the 1970s they redefined the concept of economic development in terms of the reduction or elemination of poverty, inequality and unemployment in the context of a growing economy. In this phase " Redistribution with Growth" become the popular slogan. Taking in this frame work, Charles P.Kindleberger and Bruce Herrick agreed Economic Development is generally defined to include improvements in material welfare, especially for persons with the lowest incomes the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural towards industrial activities.

Dudley Seers posed the basic questions about the meaning of development in the right perspective when he asserted. "The questions to ask about a country's development are therefore : what has been happening to poverty ? what has been happening to unemployment ? What has been happening to inequality ? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to all the result 'development' even if percapita income doubled ".

Economic development is thus a process with noble ideals and backward countries without exception are endeavouring to make it successful.

1.3 FACTORS THAT DETERMINE ECONOMIC DEVELOPMENT

After knowing the meaning of development, we now discuss the question of how to determine development. Economic development is a complex process. It is influenced by both economic and non economic factors. Among the economic factors which determine the development process in any country, the most prominent ones are the available capital stock and the rate of its accumulation, capital-output-ratio in various sectors, agricultural surplus. In addition some non-economic factors such as size and quality of human resources, political freedom, social organization, technical know-how and general education, absence of corruption and above all, 'Will' to develop on the part of the people play an important role in determining the pace and direction of development. Last but not the least is the natural resources in development. They often decide the limits of development.

1.4 NATURAL RESOURCES

Until the 1930s development or under development of an economy was often explained in terms of the relative quantities of natural resources available. Indeed, development and prosperity of a number of countries may be associated, among other things, with the kind and size of the resource base they have. Availability of fertile soil with abundant supply of water for irrigation purposes provides favourable conditions for agricultural development. Similarly, adequate reserves of coal and petroleum and water resources for electricity generation can be profitably utilized by an under developed country for its transformation into a developed economy. Minerals like iron ore, copper, tin, bauxite and uranium, if available in plenty can induce the process of industrialisation, Sea coast provides navigation facilities necessary for overseas trade, without these resources there is not much hope for economic development. The natural endowments of a country place general limits on the possibilities of economic development.

1.5 ECONOMIC FACTORS

In a country's economic development the role of economic factors is decisive. The stock of capital and the rate of capital accumulation in most cases settle the question whether at a given point of time a country will grow or not.

1.5.1 Capital formation

Capital formation is of crucial importance in the process of economic development. It is quite necessary to step up the rate of capital formation so that the community accumulates a large stock of machines, tools and equipment which can be geared into production. Not only that, capital formation requires the creation of skill formation so that the physical apparatus or equipment created can be utilized to raise the level of productivity. The Indian Planning Commission puts this idea correctly when it states. "The level of production and the material well-being a community can attain depends, in the main, on the stock of capital at its disposal, i.e. on the amount of land percapita and of productive equipment in the shape of machinery, buildings, tools and implements, factories, locomotives, engines, irrigation facilities, power installations and communications. The larger the stock of capital, the greater tends to be the productivity of labour and therefore, the volume of commodity and services that can be turned out with same effort."

Experience of development in other countries suggests that a high rate of capital formation was achieved to trigger rapid economic growth. It is quite reasonable to suppose that in the initial years it was not possible to step up the rate of capital formation to full extent by domestic savings consequently it has decided to permit direct foreign investment with a view to imbibing advanced technology so that ultimately India can compete in the international market on its own.

1.5.2 Capital output Ratio

Another determinant of economic development is the capital-out put – ratio. The term capital-output-ratio refers to the number of units of capital that are required in order to produce one unit of output. In other words, capital in the various sectors of the economy at a point of time. The capital-out put-ratio for the economy as a whole is only a shorthand description of the productivity of capital.

The capital output ratio is different for different industries and different economies and it varies over a period of time. "There is no unique capital-output-ratio applicable to all countries at all times. Much depends not only on the stage of economic development reached but also on the precise forms of further expansion. For instance, in the early phase of economic development, when a country is making heavy investment on economic infrastructures, i.e., on building irrigation works, hydro-electric projects, roads, railways Etc., the corresponding additions to output will be small. But with the passage of time as the power potential and transport equipment are utilised to the full, there shall be a favourable shift in the capital-output-ratio.

Similarly, basic industries like iron and steel, machine tools, engineering and metallurgy are more capital intensive than consumer goods industries. Consequentrly in the initial years of development, when the economic foundations are being laid, capital-output-ratio tends to be unfavourable. But as development gathers momentum, and the emphasis is shifted to the production of consumer goods, relatively smaller increases in investment bring about 'arge increments of output. In other words, the stage of economic development and the mix of various types of investments determine the capital-output-ratio. Thus, the rate of growth of national income in an economy depends upon the rate of investment and capital-0utput-ratio.

1.5.3 Marketable surplus of Agriculture

Increase in agricultural production accompanied by a rise in productivity is important from the point of view of the development of a country. But what is more important is that the marketable surplus of agriculture increases. The term 'marketable surplus' refers to the excess of output in the agricultural sector over and above what is require to allow the rural population to subsist. The importance of marketable surplus in a developing economy like India emanates from the fact that the urban industrial population subsists on it. With the development of an economy, the ratio of the urban population increases and increasing demands are made on agriculture for food grains. The demands must be met adequately, otherwise the consequent scarcity of food in urban areas will arrest growth. In case, a country fails to produce a sufficient marketable surplus, it will be left with no choice except to import food grains which may cause a balance of payments problem. Until 1976-77, India was faced with precisely this problem. Hence, if some country wants to step up the tempo of industrialisation, it must not allow its agriculture to lag behind.

1.6 NON-ECONOMIC FACTORS

From the available historical evidence, it is now obvious that non-economic factors are as much important in development as economic factors. In the following pages, we attempt to explain how they exercise influence on the process of economic development.

1.6.1 Growth of population

Rapid growth of population is considered to be an important determinant of growth. Since economic growth is measured in terms of an increase in percapita income, a part of the increase in national income is utilised to maintain the additional populaton. In other words, in terms of percapita income, on account of a rise in population, the country experiences a very, thin spread of the benefits of growth. This high lights the need for a large and active programme of family limitation so that the benefits of the massive developmental efforts are not dissipated. But it may be emphasized that, it would not be proper to isolate the population factor because history has shown that birth rate falls significantly for the majority of the people. Economic development and population growth are inter connected. When population hinders economic development, the latter, as gathers momentum, leads to the creation of more appropriate conditions to control population.

1.6.2 Technical know-how and general education

It has never been doubted that the level of technical know-how has a direct bearing on the pace of development. As the scientific and technological knowledge advances,man discovers more and more sophisticated techniques of production which steadily raise the productivity levels. Schumpeter was deeply impressed by the innovations done by the entrepreneurs, and he, infact, attributed much of the capitalist development to this role of the entrepreneurial class. Since technology has now become highly sophisticated, still greater attention has to be given to research and development for further advancement. If a country in modern times neglect this activity, it will have to pay a heavy price in terms of industrial underdevelopment. Under assumption of a linear homogeneous production function and a neutral technological change which does not effect the rate of substitution between capital and labour. Robert M.Solow has observed that the contribution of education to the increase in out put perman hour in the United States between 1909 and 1949 was more than that of any other factor.

1.6.3 Political Freedom

Looking to the world history of modern times one learns that the process of development and under development are interlinked and it is wrong to view them in isolation. We all know that under development of India, Pakistan, Bangladesh, Srilanka, Malaysia, Kenya and a few other countries, which were in the past British colonies, was linked with the development of England. England recklessly exploited them and appropriated a large portion of their economic surplus. This made a significant contribution to Britain's economic development. The colonies however, were forced to remain backward in the process. Similarly France's development was linked with under development of Algeria and Indo-China, the Netherland's development with the under development of Indonesia and the U.S.A.'s development with the under development of Latin American countries.

Dadabhai Navaroji has candidly explained in his classic work 'poverty and Un-British Rule in India' that the drain of wealth from India under the British was the major cause of the increase in poverty in India during that period, which in turn arrested to economic development of the country. So, in nutshell, we do not find any example of economic development under the colonial rule from history. Hence political freedom is all essential condition for the economic development of a country.

1.6.4 Social Organisation

Mass participation in development programmes is a pre-condition for accelerating the growth process. However people show interest in the development of activity only when they feel that the fruits of growth will be fairly distributed. Experiences from a number of countries suggest that when even the defective social organisation allows some elite groups to appropriate benefits of growth, the general mass of people develop apathy towards state's development programmes. Under the circumstances, it is futile to hope that masses will participate in the development projects under taken by the state.

India's experience during the whole period of development planning is a case in point. Growth of monopolies in industries and concentration of economic power in the modern sector is now an undisputed fact. Further more, the new agricultural strategy has given rise to a class of rich peasantry creating widespread disparities in the country side. Most people think that these facts are sufficient to prove that India's social organization is anything but just. Hence it is not at all surprising that there is wide spread apathy towards development planning in this country.

1.6.5 Corruption

Corruption is rampant in India at various levels and it operates as a negative factor in its growth process. Until and unless the State root out corruption in its administrative system it is more natural that the capitalists, traders and other powerful economic classes will continue to exploit natural resources in their personal interests. Further more, a substantial portion of the out lay on development projects appropriated by the government officials and other functionaries by employing corrupt means. The regulatory system is also often misused and the licences are not always granted on merit. The art of tax evasion has been perfected in India by certain sections of the society and often taxes are evaded with the connivance of the government officials. Under such conditions it is futile to hope that the pace of development will be fast.

1.6.6 Desire to develop

Development activity is not a mechanical process. The pace of economic growth in any country depends to a great extent on people's desire to develop. If in some country, level of consiousness is low and the general mass of people has accepted poverty as its fate, then there will be little hope for development. Richard T.Gill has candidly remarked, "The point is that economic development is not a mechanical process; it is not a simple adding up of assorted factors. Ultimately, it is a human enterprise. And like all human enterprises, its outcome will depend finally on the skill, quality and attitudes of the men who undertake".

1.7 LET US SUM UP

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

1.8 FOR SELF STUDY

I Question:-

1) Discuss the different factors which are determine the economic development.

II Books

1) S.K.Misra and V.K.Puri – Indian Economy - Himalaya Publishing House, Delhi.

2) Ruddadath & K.P.M. Sundharam – Indian Economy - S.Chand & Company Ltd,. New Delhi.

3) A.NAgarwal - Indian Economic - (Problems of Development & Planning) New Delhi.

UNIT - 2 DIFFERENT APPROACHES TO ECONOMIC DEVELOPMENT AND ITS MEASUREMENT IN INDIA

2.0 OBJECTIVES

After studying this unit you should be able to :

Know the various yardstick of measuring Economic development such as :

Increase in Gross domestic product ;

Rise in Percapita product ;

Equitable distribution of income and wealth ;

the development indicators like Income Index

the Non-income indices such as P.Q.L.I. Basic needs Approach, H.D.I. and Gender related development index.

2.1 INTRODUCTION

Economic development may be defined as a rate of expansion that can move an under developed country from a near subsistence mode of living to substantially higher levels. For nations already advanced economically, it will mean a continuation of existing rates of development. Historically, rapid economic development has been accompanied by greater industrialisation. But more accurately the process of economic development can be described in terms of greater commercialisation of economic activities. Though this concept of economic development is correct in essence, it lacks precision and makes its measurement difficult. However there is nothing wrong if a change in industrial structure is treated as an auxiliary index along with some better measuring yardstick of economic development.

2.3 INCREASE IN GROSS DOMESTIC PRODUCT

In the present day development economics, one finds broadly two main approaches to the concept of economic development. The first one often known to be the traditional approach defines development strictly in economic terms. For the exponents of traditional approach economic development implies a sustained annual increase in G.N.P. (or G.D.P.) at rates varying from 5 to 7 percent or more together with such alteration in the structure of production and employment that the share of agriculture declines in both, where as that of the manufacturing and tertiary sectors increases. The policy measures that suggested are the ones which induce industrialisation at the expence of agricultural development.

In a closed economy no distinction is to be made between gross national product and gross domestic product (G.D.P.) where as in an economy open to foreign trade, national product may be greater or less than domestic product depending upon net inflow or out-flow of income. A country may record an increase in its GNP if its people have invested massive capital outside the country and earn big profits there from. But this does not mean that the economy has developed. Therefore the only rational approach to the problem will be to differentiate the term GDP from the term GNP in the context of economic development. Obviously, of the two variables GDP will give a more accurate picture of economic development as compared to GNP. However in India's case, the distinction is not very meaningful, because the two are almost the same. In this context, it is pertinent to mention that the increase in GDP must be stready and prolonged. A short period increase, as occurs with in boom period of a trade cycle, cannot be accepted as development. This approach though apparently sound, is not wholly scientific and exposes itself to some criticism. It is evident that in a country where the population grows at a faster rate than the rate of increase in G.DP, product percapita will decline. Now the problem is should we accept this trend as economic development simply for the reason that GDP of the country has increased. Kuznets has rightly asserted that this is no development. In his own words, " economic development of a nation may be defined as a sustained increase in its population and product percapita."

2.4 RISE IN PERCAPITA PRODUCT

A cross-section of economists believes that the essence of economic development is an increase in product per head of population. A mere rise in GDP of GNP is, however, a questionable criterion for assessing the development performance of an economy.

Economic activity involves many dimensions. Therefore, many patterns of economic changes are possible. In the absence of any scientific norm available for measuring economic development, it is rather difficult to determine the extent of development. In the process of economic development all the variables do not move in the same direction and with the same speed. GDP of GNP may rise, while percapita product may decline or productivity per labour unit may increase, while percapita consumption may go down. Therefore, the only alternative open to us is to select a crucial variable which may be used as an index of economic development. The index to be chosen must, however, depend upon the problem to be studied. Generally most of the variables are interrelated and move in the same direction. Nonetheless, one cannot completely rule out the possibility of various variables moving in opposite directions in the process of economic change. Therefore if a single variable is to be choosen to gauge the rate of economic development, due care has to be taken in this regard. For the man in the street, an improvement in the percapita level of consumption is the most appropriate indicator of the development performance of an economy.

As already pointed out, in a closed economy percapita domestic product and percapita national product are identical, but they may not be equal to percapita consumption. Moreover in an expanding economy improvement percapita consumption will be far less than the rise in percapita for the simple reason that, over time the rate of capital formation has to be stepped up. Percapita consumption may prove to be a strategic variable, if the purpose of study is to measure actual changes in the living standard of the people. On the contrary, if the purpose is to have an estimate of the capacity of the economy to provide income which may or may not be actually consumed, percapita consumption will be of little use. Here percapita product will prove to be a better index.

2.5 EQUITABLE DISTRIBUTION OF INCOME AND WEALTH

Jacob Viner has associated the concept of economic development with equilable distribution of wealth. He insists that the reduction of mass poverty be made the crucial test of economic development. In his openion an increase in percapita product is undoubtedly an important index of economic progress, but it cannot be wholly depended upon to gauge economic development unless it is also followed by a reduction in the existing inequalities in the distribution of national wealth. As such economic development may be interpreted to mean a sustained increase in percapita output accompanied by a reduction in the existing economic inequalities and an economic betterment of masses. Though this concept of economic development sounds good, it is not wholly correct. It is quite possible that with every increase in GNP (or GDP) accompanied by a rise in percapita product, greater inequality in the distribution of wealth and income may crop up.

Thus after considering alternative definitions of the ' economic development', we feel that the most appropriate approach to measure economic development is in terms of a rise in percapita product. In this study of India's problems of development, maximum reliance has been placed in this crucial index. However care is being taken to note structural changes which this country has undergone over years, because in many cases these changes are of greater importance than some increase in percapita product. Charles Bettleheim has pertinently argued that, in planning for economic development " the aim should be not quantitative change (large production) only, but qualitative change too (i.e. higher productivity of labour). Only on the basis of such qualitative change can an economy as a whole rise to the higher level.

2.6 DEVELOPMENT INDICATORS

After having taken up the meaning of development we now discuss the question of how to indicate development. The indicator most often is the one related to income.

2.7 INCOME INDEX

There are two sets of income figures that are used to represent development. One relates to increases in total national income of a country (i.e. money national income corrected for price changes or national income at constant prices). In terms of this index an economy is said to be growing when its national income increases for a long period of time. In case the country's national income remains stable, it is an indication of a static stagnating economy or non-growth. A declining trend in national income represents declining state of the economy or a negative growth.

Second and the most widely used index of development is a rise in the real percapita income over a long period of time. Since goods and services are very inadequate in country like India, increases in the national income is obviously of paramount importance. But from the welfare point of view, availability of goods and services per head is significant. It is more so as the population increases in India is rising at a fast rate. Thus a rise in national income, no doubt, by itself does show development. But its welfare significance can be properly measured by the index of percapita income.

While income rising (on the basis of income index) is considered an important objective of development, it is contended by some that this cannot be the sole objective, not even the main objective in many cases. This dissatisfation with this approach has been caused both by the conceptual weaknesses of the income index as also by the dismal experience of development of India since the fifties. First as for the conceptual short comings are concerned, one may mention two principal ones. One is that national indicator makes no distinction between unproductive and dysfunction growth and productive and socially useful growth. For example, increase in military expenditure and increase in drug abuse (involving large expenditure in drugs Etc) get counted as additions to the national income. Two, the index ignores welfare considerations on several counts. Take an example, An improvement in people's health through preventive measures, reduction on medical bills through less expenditure on production of drugs, less medical tests, less doctor's fees Etc. But this lessening of expenditure shows up as reduction in national income. Secondly the assumption of this approach that the vast poor masses of this country will also benefit from the rise in national income has been belied by the actual experience of this country in more than four decades, since the fifties of the 20th century. The expectations in the fifties were that the growth in national income after initially favouring the upper classes would 'trickle' downwards and benefit the poorer sections. But such expectations were not fulfilled in this country.

2.8 NON INCOME INDICES

Largely as a reaction to the inadequacy of income index as the only criterion of development, emphasis shifted to non-income indices of development. Among them physical quality of life index, basic needs approach, human development index and gender development are important. We shall now discuss one by one.

2.8.1 Physical Quality of Life Index – (P.Q.L.I)

The Physical Quality of life index incorporates three components, life expectancy, infant mortality; and literacy. This approach measures what the individuals need and desire initially and at the most basic level. They wish to enjoy longer life, lead a life of reduced illness, and be prepared for greater opportunities in this world. A higher index shows that large many people have benefited in terms of these components, that is the life expectancy has gone up, infant mortality reduced and literacy expanded.

Such an improvement can take place even with no/little rise in national income. It is so because with a change in the use pattern of national income, a country can favorabley influence these three elements of objective. However, it must be conceded that in India only little can be achieved in these spheres without substantial growth in national income. Without such a growth, necessary facilities cannot be expanded much and for many, such as for better and nourishing food, for medical and educational needs etc,. which have bearing in the physical quality of life.

2.8.2 Basic Needs Approach

The basic needs approach is the approach that gives priority to the meeting of the basic needs of the yast population. This line of thinking considers even the physical quality of life index as inadequate and less helpful in meeting the many evils of poverty. This approach involves provision for the minimum levels of material needs such as consumption of food, provision of clothing and shelter and access to such essential public services as pave drinking water, sanitation, public transport, health and education. The objective of development, therefore, is meeting the needs of the vast masses. Consequently the index of progress has to be in terms of production of these goods and services.

This approach includes not only the objective of increasing the rate of growth of income, but more importantly a pattern of development that encompasses objectives like the following: a composition of national product little in favour of necessities of life; a production that is labour intensive in the sphere of consumer goods using local resources and turning out goods demanded by the masses etc; a set of measures that is directed to the eradication of poverty; a public expenditure that offers services to the welfare section of the population etc. In brief, the approach of " basic needs" is meant to achieve the objectives of removing poverty, un-employment and inequalities that have marred the growth of this country in the recent past.

2.8.3 Human Development Index (H.D.I)

Another and the most recent index of development in use since 1990, is the Human development index. It is a composite of three indicators: Longevity (or life expectancy at birth) educational attainment and standard of living (or percapita income). The first two indicators are the social indicators. Life expectancy, a much desired objective of human beings, reflects the progress made in such fields as health, infant and child mortality and nutrition. The educational attainment is comprised of adult literacy, and a combined primary, secondary and teritiary, enrolment ratio. The percapita income, an economic indicator, is used as a proxy measure for satisfaction derived from a bundle of basic goods and services. It is also assumed to reflect employment levels of people.

The HDI, unlike other indices which measure absolute levels, ranks countries in relation to each other. For this the current minimum value and the maximum desirable value in respect of each of the three elements of the index are taken note of. For example, for life expectancy the current minimum value is 25years and the maximum desirable value is 85 years. In the case of the educational attainment the minimum and the maximum values are 0 (zero) percent and 100 percent. The index then takes the distance travelled (or progress made) from the minimum towards the maximum. This is expressed in percentage terms. The same exercise is repeated in respect of the third component of the index. The distance travelled in each case has been used as the basis for combining the three indices. This gives a common denominator to rank countries on the uniform scale.

Another novel feature of the HDI is the weight assigned to income which tapers off sharply beyond the threshold income regarded as sufficient for human survival. This means that as the income goes beyond the cut-off-point it becomes increasingly less important, on the valid assumption that the rise in income beyond a certain point is subject diminishing returns. As a consequence the other two indicators became more influential in determining the index.

H.D.I. is useful and meaningful, specially for the less developed countries. It is much better than the two non-income indices described above. Unlike them, it includes income which is the single most important factor in determining the well-being of the poor in underdeveloped country like India. While it gives importance to income, it does not do so unduly. The decline in its weightage after certain point, automatically rises the importance of social indicators. This incorporates the present concern of many nations with human development rather than with economic development.

2.8.4 Gender Related Development Index

This is similar to HDI in the sence that this also includes the three components of H.DI but adjusts to these for gender equality. The index adjusts the achievement in life expectancy, educational attainment and income in accordance with the disparity is achievement between men and women. The position of India is 103 out of 144 countries as per Human Resource Development Report 2002. In addition to this Gender Empowerment measure has been introduced in the year 1995. It concentrates on female participation key areas of economic and political spheres in decision making. In order to reflect economic participation and decision making power of women, the percentage share of women and men administrative and managerial positions; as also percentage shares of professional and technical jobs are considered. The another variable is the women's and men's percentage share of assembly and parliamentary seats to reflect political participation and decision making power. An income variable is also used to reflect power over economic resources. The H.D.R 2003 has given G.EM ranks to 70 countries and India is not within the index.

2.9 LET US SUM UP

The above review of indicators of development indicate the direction of intellectual endeavor to evolve a satisfactory measure of development. It is undisputable that broad measures of development are more desirable than the mere income indicators, as these help to identify the critical interdependencies among economic, social and political aspects of development. They also enable integrates approaches to development planning by providing quantitative evaluation of the combined impact of the economic and the no-economic factors on development.

2.10 FOR SELF STUDY

I Questions

1) Discuss the different Indicators of Economic development

2) Examine the Physical Quality of life Index, Basic needs Approach and Human development Index to the measurement of economic development.

II Books

1) S.K.Misra and V.K.Puri - Indian Economy Himalaya Publishing House, Delhi.

2) Ruddradath and K.P.M Sundharum - Indian Economy S.Chand and Compnay Ltd.,

New Delhi

3) A.N. Agarwal - Indian Economy
(problems of Development
and planning) – New Delhi

UNIT 3 FEATURES OF INDIAN ECONOMY

3.0 OBJECTIVES

After studying this unit you should be able to

Know India as under developed Economy and its basic features which are responsible for its economic backwardness, India as Duslistic economy India as mixed economy and India as planned economy.

3.1 INTRODUCTION

After having discussed thé economic development and its determinants in the first unit and different approaches to economic development and its measurement in India in the second unit we now short out the features of Indian economy in this unit. This we do by explaining India as under developed (back word) economy, India as dualistic economy, mixed economy and planned economy.

3.2 INDIA AS UNDER DEVELOPED ECONOMY

In its present stage, the Indian economy is an underdeveloped economy. Almost all important characteristic features of all underdeveloped economy were present in the Indian economy at the time of independence and have not changed much since then. Underdeveloped economy is primarily an agricultural economy, as 60 to 80 percent of the country's population seeks employment in agriculture. On account of obsolute over population in agriculture, considerable disguised un-employment exists in this sector. In an under developed economy not only the percapita income is low but the capital per head is also very little. Due to the widespread poverty most people have virtually no ability to save and what ever capital accumulation is done, it remains highly concentrated in the hands people whose values are not condusive to invest in industry or agriculture. Mass of the people spend major portion of their income on food and necessities, and thus food grains remain the principal wage good trade and commerce is generally limited and credit facilities are scarce. Demographically also these economies are backward, as birth and death rates are high, life expectancy at birth is low and dietary differences are common. Not only technological knowledge is inadequate in an under developed economy, hold of traditions and customs is also very strong due to wide spread illiteracy, and this operates as growth asserting factor.

3.2.1 Low Percapita Income

The percapita income in the country, a key indicator of economic development is very low. It is Rs. 17,978 for year (2001-2002) on monthly basis it comes to Rs.1498, and on daily basis it is Rs. 50 only. The low level of the percapita income can well be gauged from the huge difference between this figure and that of the developed countries. Expressed in the U.S dollars (for the purpose of comparison) it is \$460. At this level, it is many times less than that of the developed countries. It is for example, \$38,120 for Switzerland, \$ 34210 for Japan, \$ 34260 for the U.S.A. \$ 26780 for Sweden and \$ 24,500 for the U.K.

Even at this level, the low percapita income does not apply correctly the dismal reality of the masses. Because of the unequal distribution of the country's income, the average income of the large many Indians is lower than low per capita income for the people as a whole. The situation is worst for those who are poorer than the poor. These are the people who are not able to meet fully the minimum requirements for their physical existence.

3.2.2 Low Quality of Life

Another significant indicator of the country's backwardness is the quality of life which is highly unsatisfactory. As for the health status of the people, the two best indicators, namely life expectancy, and the age specific mortality rates present a dismal picture. Life expectancy, for example, is 63 years (1999) and is way behind that of the people in the developed countries at over 78 years. The infant mortality rate, (i.e. children under one year) at 71 (per 1000 live births) is much higher that in the developed countries at 6. So is the case of mortality rate in respect of children under 5 years. It is 90 for India and a very low at 6 for the developed countries.

Another important facet of the poor quality of life is the un-satisfactory consumption of the people. As many as 52 percent of the children under five suffered from malnutrition. In India more than 30 percent of the total population who live below the poverty line. These people are not able to meet their minimum calorie needs for sheer physical existence. In the sphere of education the picture is equally bad. The illiteracy among adults (i.e. persons aged 15 and above) is quite high, particularly among females. For the entire adult population it is as high as 35 percent. This means that more than one-third of the people are not able read or write any thing, even about their every day life.

3.2.3 Large un Utilised Natural Resources

While the Indian population is, by and large poor, the country is rich in natural resources. This paradox is explained by the fact that these resources have not been fully used, or these have not been converted into material goods and services to the extent it is possible. Hence the people are poor. There are a lot of both non-renewable and renewable resources. Among the non renewable resources, the possesses fairly large qualities of iron ore, coal, manganese, bauxite and minerals required for the manufacture of cement, ceramics, fertilizers, chemicals etc. Among the renewable resources, the most important water and forests are available in ample qualities, India is gifted with a large number of perennial rivers. Besides the known resources, there enormous resources yet to explored. All this should have made the country rich materially. But as is the case with a typical underdeveloped country, substantial portion of the known resources are not being tapped fully, and a lot many have not as yet been touched and explored. It is therefore rightly observed that India is a rich country inhabited by the poor people.

3.2.4 Predominance of Agriculture

Another aspect symbolic of under development, is the predominance of agriculture in the Indian economy. This is in total contrast to the economic structure of a developed economy, where agriculture is insignificant and industry is a very significant element. All this is obvious from the important place of agriculture in the economic life of India. First, take India's national income. It is to a large extent derived from agriculture. The contribution of agriculture to the national income is as high as 27 percent as against over 25 percent by manufacturing industries, construction etc, and the rest of about 48 percent by services. In marked contrast to this, in developed countries agriculture contributes around 2 percent, industry 33 percent and services over 65 percent. Second aspect of its predominance is to be seen in the occupational structure of the country which is tilted heavily towards agriculture. Of the total labour force 67 percent is engaged in agriculture 33 percent in manufacturing industries and services the picture is totally different in developed countries where the proposition of labour force in agriculture is as low as 5 percent, with remaining engaged in industries and services. Like wise many other facets of the Indian economy bear the stamp of the dominant role of agriculture. There is lot of trading internal and external, that pertains to agricultural products. Many industrial activities depend upon agricultural raw-materials. No wonder that most of India's population lives in villages and India's economy is, in essence an agrarian economy.

3.2.5 Heavy Population Pressure

Like the population-profile of a backward economy, India's population is large and rising at a fast rate. The number of people is very large indeed, considering the land available, the present level of the development of the country, the public facilities etc. The total, according to the 2001 census, is around 103 crores. But equally significant is the fact that the population has grown at a fast rate and continue to do so. The growth rate has been particularly rapid since 1951, at above 2 percent, with the latest census revealing a slight decline to 1.9 percent for 1991-2001 decade. This is in contrast to the slow growth rate in the advanced countries which is over around one percent. At the present low level of development, the birth rate is high indeed as compared to the rapidly falling death rate. It is widening difference between the two rates and adding the large numbers to the already large population. This is phase where in the country continues to experience high birth-rate as in a backward country and where death rate is declining mostly because of public health measures like eradication of deadly epidemics like plague, extension of medical facilities, provision for pure drinking water etc.

3.2.6 Prevalence of Chronic Unemployment and under Employment

In India labour is an abundant factor and consequently it is very difficult to provide gainful employment to entire working force. In developed countries unemployment is of a cyclical nature and accusrs due to lack of effective demand. In India unemployment is structural and is the result of deficiency of capital. On account of small growth of economic activities, particularly in the non-agricultural fields, most of the people are under employed in India. With even agriculture not expanding adequately, the village population does not work full time. Apparently they are engaged in work in agriculture, but they do not have enough work to keep them busy through out the day or the year. In other words as Nurkse in his "problems of capital formation" put it, they are suffering from disguised unemployment. Even if some of them are with drawn from agriculture, production will not suffer as more are engaged in it than are needed. Their unemployment is thus concealed or disguised, and not open.

In towns and cities, however besides under employment, there is a considerable number of people who suffer from open unemployment. Their unemployment involves not merely the wastage of human labour, but also society's scarce resources spent on education and training.

3.2.7 Capital Deficiency and low-level Technology

Another basic future of the Indian economy is the existence of capital deficiency and low level technology. India suffers from capital-deficiency both in terms of physical capital and human capital. As for physical capital is concerned, its total stock is not adequate for equipping well, the entire labour force for the full utilization of natural resources. The physical capital deficiency is reflected in two ways-firstly the amount of capital available per head is low and secondly, the current rate of capital formation is also low. Again quite a significant part of the capital is of low quality, consisting of simple / old variety tools largely in rural areas. As such it is little help in taking full advantage of many opportunities of fast growth thrown open by explosion in knowledge and opening of the economy. No doubt the capital formation which has been slow till recently, has accelerated in the last few years. And a large part of newly formed capital is of modern variety. But with the fast growing population and increasing labour supply, the per head capital continues to be small. Again in view of the large opportunities.

In technology too, backwardness mark, vast areas of the economy. In India in most parts of the unorganised sector which accounts for large part of the country the methods of production are old and traditional. In agriculture certain areas such as Punjab, Hariyana, and western Uttarpradesh and in certain crops like wheat and rice, technology have made impressive forward strides. But in large many areas and in many crops low yielding techniques continue to dominate. In industry, there is again to be found a similar technological dualism. While modern industry largely in the organised sector uses the most advanced techniques. There are vast number of industrial activities, largely in the villages which are being carried on with simple and primitive tools.

3.2.8 Poor Quality of Human Resources

A glaring feature of an underdeveloped economy is the poor quality of human capital. The poor quality of human capital can be judged the high rate of illiteracy prevalent in the economy. A minimum level of education is necessary to aquire skills and also comprehend social problems. Thus the illiteracy retards the growth. In India according to 2001 census about 32 percent of the population can neither read nor write. The quality of human capital is also indicated by the availability of health facilities. Thus account of mass illiteracy and inadequacy of health facilities the quality of human capital in India is very poor. Consequently there is lack of entrepreneurs, investors and innovators. Thrown open by explosion in knowledge, the existing capital stock is short of needs.

The position is respect of human capital which depends on education, training health facilities etc is far from satisfaction. At present as per 2001 census 68 percent of the population is literate. This means that as many as 32 percent can neither real nor write. In advanced countries like U.S.A., Canada, U.K., Australia and Sweden illiteracy is below 5 percent and in some nil. In higher education impressive progress has been made in absolute numbers. But considering the vast needs, the inadequacy even in this sphere is large indeed. In respect of health too the facilities are grossly short of requirements.

3.2.9 Poor Economic Organisation

Certain institutions necessary for economic development are not adequately developed in India. For instance to mobilize savings, and especially the savings of the rural sector, the development of financial institutions is necessary. India suffers from inadequacy of financial institutions in rural areas. Similarly India, being a country of large number of small farmers, the development of certain agencies of credit for granting loans to formers on easy terms is needed. Like wise to provide medium and long terms loans to industries, the development of industrial finance corporations is quite necessary. The existence of a land lord class which exploit the poor tenants also calls for the early adoption and enforcement of tenancy legislations to protect them. All these institutional bottlenecks require the development of an efficient and honest administration.

3.3 INDIA – AS DUALISTIC ECONOMY

The Indian economy presently is characterised by a dualistic economic structure in the sence that there is modern sector comprising of few mines, plantations and industries adopting modern techniques of production side by side with traditional sector. But the majority of the productive units and a major part of the out put is produced with the help of traditional inferior techniques. In this sector there is very limited degree of substitutability of factors so that production is characterised by fixed technical co-efficients and the production process are relatively capital intensive.

Like in other less developed countries, the traditional rural sector in India possesses the following characteristics. It is engaged in peasant agriculture and handicrafts or very small industries. It has variable technical co-efficients of production, so that the commodities can be produced with a wide range of techniques and alternative combinations of labour and capital. The factor endowment is such that labour is relatively abundant factor of production, so that techniques of production are labour intensive.

In. India since Independence there has been a significant decline in the mortality rate while birth rate has failed to decline correspondingly. As a result there is population explosion in the country. However due to fixed technical co-efficients in the industrial sector, employment opportunities have failed to grow rapidly. This explains why the absorption of increased labour force in industries has been rather small. The increased population is forced to seek a livelihood in the agricultural sector. In this country it seems that we have now reached a stage that all available cultivable land is already cultivated by highly labour intensive techniques and the marginal productivity of labour had declined to zero. Under these circumstances any increase in population and its absorption in agriculture is bound to result in what is known as disguised un-employment. In this situation there is incentive for farmers or small scale enterprises to make investment of capital in labour intensive sector even if they have capital to invest. Nor will they be interested in introducing labour saving techniques even if they know about them and could finance them. It seems that the problems of disguised unemployment the rural sector has tend to become more and more serious in recent years because technological progress took a from favoring the capital intensive sector.

While technological progress was slow in peasant agriculture and handicrafts, the industrial sector including mining and petroleum registered a spectacular technological development. Further, since Independence trade union activity and government intervention in the labour market have increased and this has led to artificially high wage rates in the organised industrial sector. However, these policies had no effect on real wages in the rural sector and contributed a great deal to the emergence of technological dualism.

3.4 INDIA-AS MIXED ECONOMY

The Indian economy is a mixed economy. It has acquired this form with the growth of a large public sector since independence. Even before independence, India had a fairly important public sector, the most important component of which was the railway system. In India, the second five year plan summed up the objectives of the planned development in the phrase 'socialist pattern of society' implying that the basic criterion for determining lines of advance must not be private profit but social gain.

Nationalisation of banks, setting up of a number of enterprises in the public sector and such other measures may create an illusion that the economy has advanced towards socialism, but infact socio-economic relations have not under gone any such change as to warrant the conclusion that the Indian economy has drifted away from its capitalist form. There is no evidence that despite the growth or a large public sector, India has moved to any significant extent closer 'socialist society' in any meaningful sence of the term. Even the policy measures adopted by the government have been such, that they significantly undermine the role of economic planning. However, in many respects, the character of the Indian economy is different from that of the capitalist economies, the two factors in the Indian economy viz, the presence of public sector and economic planning make it distinctly different from capitalist economies. Some economists taking note of the public sector and economic planning in India's economy have characterised it as state capitalism. In essence, however the state capitalism is the some thing as the mixed economy. We explain below, such features of India's economy which determine its character as a mixed economy.

1) Private Ownership of the means of Production and profit-induced commodity production:

Under Indian constitution private ownership of means of production has been allowed. Moreover, the capitalist class controls the state power where by it influences the policy of government. These factors adequately explain why the private sector in this country remain pervasive. (The share of the public sector in the total natural output is less than 25 percent). At present a big segment of the industrial sector is in private hands. As a matter of fact, with the exception of some basic industries, all other industries including cotton textiles, jute, sugar, cement, vegetable oil, leather etc are in the private sector. Though railways are still state owned road transport is mostly in private hands. Agriculture, the principal economic activity in the country is in the private sector as the ownership of agricultural land is entirely personal. These facts jointly suggested that the production in such an economy will be done for the market and the activity of the producers will be motivated primarily by profit. In agriculture, no doubt, small farmers do not have marketable surplus and therefore their behaviour as producers is generally not responsive to market changes.

2) Decisive role of market mechanism

Market mechanism has a predominant role in the Indian economy. At present this country has markets not only for various products, but also for productive fctors such as labour and capital. Prices of various commodities and timely changes there in, along with future price expectations, influence the decisions of producers. Factor prices, to a great extent also determine the techniques of production. Money market in the country is also now better organised comprising diversified financial institutions. Though all major commercial banks still remain nationalized, their working as well as their business dealings with producers in the private sector are generally determined according to the laws of market. Further, the amount of investment and its form is greatly influenced by the interest rate that prevail in the money market.

However, the market mechanism in India has not completely free from state control. In 1951 Industries (Development and Regulation) Act was passed to provide a regulatory system for industrial activity in the economy. The state wanted to evolve a licensing system under the provisions of the Act, as an effective instrument of industrial planning. In practice this objective could not be realised. Apart from the licensing system, the government also introduced certain other controls and incentive measures for influencing the decisions that were arrived at in the markets. These controls and incentive measures, however did not alter the basic character of market mechanism. Under the structural reforms which have been carried out in this country since 1991-92 various physical controls have been withdrawn. Thus the market now operates for more freely than in the past.

3) Public Sector

Presence of a large public sector in India along with free enterprise makes the character of the economy as mixed. The public sector in India has not been developed for any ideological resource. Its creation was a historical necessity. At the time of independence the private enterprice hand neither the resources nor the will to undertake the task of industrial development on a massive scale. Further more, country's transport system, energy sources and certain other components of the infrastructure, were un-developed. Through the economy emerging from its colonial past needed a big push, the conditions prevailing in the country were hardly condusive to development in general and industrialisation in particular. At this juncture an effective intervention of the state in the economy was imperative condition to break the low level equilibrium trap in which the economy was caught during the British period. The government recognizing this need of the time decided to take upon it self the responsibility of developing strategic sector so as to create conditions for the development of private economic activity. Hence during earlier four decades of economic planning around 40 percent investments were made in the state sector. This policy is sometimes wrongly construed as a step towards socialism. In fact in predominately free enterprise economy, creation of a state sector (however large it may be) will not alter the basic character of the economy and India is no exception to this rule.

3.5 INDIA -AS PLANNED ECONOMY

In India economic planning has been introduced in a basically capitalistic economic frame work. It is nothing to do with socialism or an egalitarian order of society. Further, not only planning in this country is limited in its range, it also very much lacks the element of compulsion. In socialist countries every possible attempt is made to implement the plans and great seriousness attached to the realization of targets laid down in it. There are no such compulsions in the Indian planning. The Indian plans laid down largest ever for sectors over which the state has little control. For example, the whole of agriculture is in the private sector and the government attempts to realise the targets laid down for this sector by providing certain incentives, which may not always work. Even for the sectors over which the government may have effective control, the measures adopted by the administration may not always be in conformity with those stated in the plans. This is quite natural in the Indian economic planning which is indicative in its form. Commenting upon the character of the Indian plans, some economists have aptly remarked, "The main characteristic is that the state what is anticipated or expected. They are entirely different from socialist plans, which lay down imperative and compulsory conditions. The latter sort of plan, once adopted, has to be implemented by administrations and enterprises, where as the Indian plans attempt to define as precisely as possible the government's agricultural, economic and industrial policies for the following five years. The government and its administration naturally want to fulfill as much of the plan as possible, but they may adopt measures very different to those suggested by the original plan without violating any legal obligations."

The planning process in the mixed economy is much more complex. The conflicting motivations are those of self interest on the one hand and social gain on the other. The purpose of economic planning in a mixed economy like India is to reconcile the conflicting interests so that they sub serve the national interest. Accordingly the success of the planning in a mixed economy depends upon the following factors.

(i) To what extent is the public sector able to pursue the socially determined goals?

(ii) To what extent is the state able to guide the private sector to follow the socially determined goals? and

(iii) To what extent is the state able to check the distortions in investment decisions arising out of private sector interests going against the public sector?

The government has been making efforts through a variety of social instruments and measures, so that economic activity in India is directed towards the attaiment of long-term socio-economic objectives of planning. The major steps taken in this regard as under:

(a) The state allocated a very significant proportion of the plan allocation to promote defence, heavy and basic industries. Most of these industries were not developed during the British period. The deliberate promotion of these industries resulted in the creation of an industrial base in the Indian economy.

(b) The state has also been allocating a substantial portion of investment for the creation of an economic infrastructure in the form of irrigation works, hydro-electric projects, roads, railways, posts and telegraphs, shipping and air transport. Substantial expansion of the economic infrastructure has been made and this has helped in enlarging the size of the market, has raised the possibilities of attaining higher productivity in agriculture and industry and has enlarged the scope for further productive investment.

(c) The state has been using rationing and control to check the prices of articles of essential consumption so that their availability to the weaker sections is ensured at reasonable prices. The main purpose of these instruments is to protect the weaker sections from the exploitations of the businessmen.

(d) The state has been undertaking special programmes to help the education and training of socially backward scheduled casts and tribes, and the backward classes and economically weaker sections so that (i) they can secure better employment in life and (ii) they can be provided equal opportunities for development. These measures, it must be admitted have helped a large number of children born in poor families to acquire vertical mobility.

(e) The state has been using the instruments of taxation and public expenditure for the use of fiscal policy so that resources are transferred from the richer section to be used for the welfare of the poor.

3.6 LET US SUM UP

To sum up, the Indian economy, though economically still backward, is no longer caught is a 'low level equilibrium trap' where it remained for a long period under the British rule. Since Independence, it has recorded a not too insignificant increase in the national income and percapita income, though one cannot be equally sure of the trickle down effects of growth. We further notice that Indian economy during the past five decades has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, changes in the financial organisation and the progressive transformation of the agrarian scene. These factors over the years are believed to have created an element of dynamism in the country's economy and one can now helpfully say that it would sustain development in future.

3.7 FOR SELF STUDY

I Questions

1) What are the basic features of Indian Economy.

2) Is India an under developed country? If so give reasons.

II Books

1) S.K.Misra and V.K.Puri - Indian Economy. Himalaya Publishing house Delhi.

2) Ruddardatt and K.P.M.Sundharam - Indian Economy. S.Chand and Compnay Ltd. New Delhi

3) A.N.Agarwal – Indian Economy (Problems of Development and Planning) New Delhi

Notes

Notes

ಆದೇಶ ಸಂಖ್ಯೆ : ಕರಾಮುವಿ/ಅಸಾವಿ/4–061/2013–2014 ದಿನಾಂಕ : 24–09–2013
ಒಳಪುಟ : 60 GSM ವೆಸ್ಟ್‌ಕೋಸ್ಟ್ ಪೇಪರ್ ಮತ್ತು ಹೊರಪುಟ : 170 GSM ಇಂಡಿಯನ್ ಮ್ಯಾಟ್ ಆರ್ಟ್ ಕಾರ್ಡ್
ಮುದ್ರಕರು : ಪೂರ್ಣಿಮಾ ಪ್ರಿಂಟರ್ಸ್, ಬೆಂಗಳೂರು. ಪ್ರತಿಗಳು : 600

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♣ REGIONAL CENTRES

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Dharwad
Shimoga
Mangalore
Tumkur
Hassan
Chamarajanagar
Bellary
Mandya
Kolar
Bijapur
Belagaum
Ramanagar
Bangalore (another one)
Chikmagalur
Udupi
Karwar
Bidar
Mysore

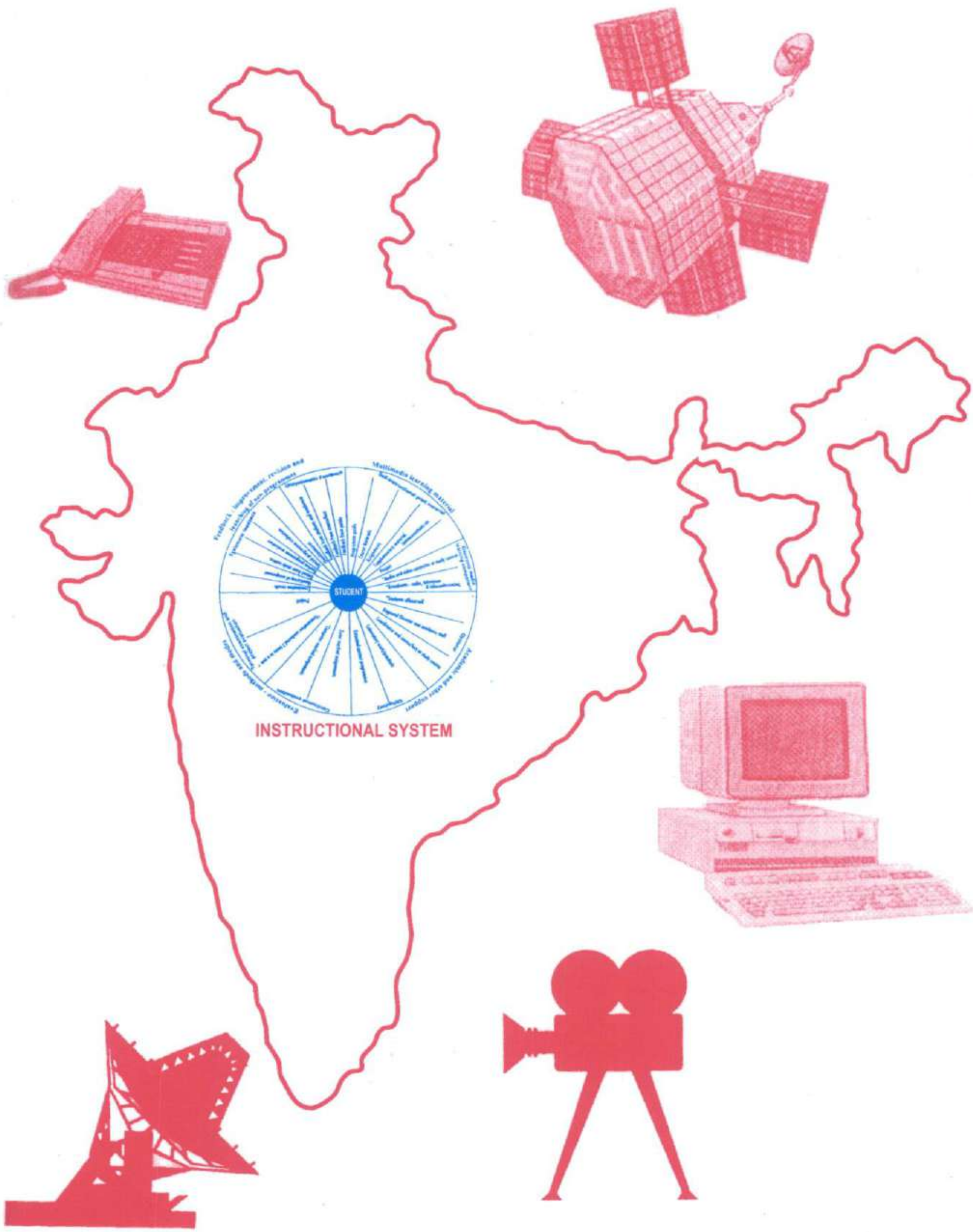
● HEAD QUARTERS

★ Total Study Centres : 123

♣ Regional Centres : 21

❄ B.Ed Study Centres : 10

+ M.Ed Study Centres : 06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