NETAJI SUBHAS OPEN UNIVERSITY

SELF LEARNING MATERIAL

Post Graduate Economics

Paper - 3

Indian Economy-I
(Problems and Policies)

PREFACE

In the curricular structure introduced by this University for students of Post-Graduate degree programme, the opportunity to pursue Post-Graduate course in subject is introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post-Graduate level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Cooperation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of proper lay-out of the meterials. Practically speaking, their role amounts to an involvement in 'invisible teaching'. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great part of these efforts is still experimental–in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these to admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Vice-Chancellor

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Paper - 3

INDIAN ECONOMY-I (PROBLEMS AND POLICIES)

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Notification

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POST-GRADUATE :
ECONOMICS

SEMESTER 1

Paper 3

Indian Economy-I (Problems and Policies)

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Unit 1 □ INDUSTRIAL POLICY

Structure

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1.1 Objectives

After reading this unit, you will be able to:

- indicate the broad framework adopted for advancing India's industrial development immediately after independence;

- describe the major features of the four major industrial policies (1956, 1977, 1980 & 1985) adopted over the years 1956-1990;
- discuss the major features of the New Industrial Policy of 1991;
- know the impact of new industrial policy on industrial growth; and
- state the functions and challenges of Competition Commission of India.

1.2 Introduction

India has predominantly been an agrarian economy. Prior to independence, India's manufacturing sector comprised of handicrafts and textiles with a world-wide market. Its products such as cotton and silk fabrics, calicoes, wooden handicrafts and some pharmaceutical products were exported after fulfilment of domestic demand. However, the policies of the British Government led to the decay of Indian handicrafts. For instance, raw materials at very cheap rates were exported from India and high priced finished products brought back from England were sold in Indian markets. Such a discriminatory policy of the British government completely destroyed India's manufacturing sector. However, in the post-independence period, a series of industrial policies were formulated to guide the course of India's industrial development.

Industrial policy, however, is an economic development strategy in which a national government identifies key domestic industries, critical to country's economic future and then formulates policies that promote the industrial competitiveness of these industries. The main purpose of industrial policy is to diversify the economy and generate *new* areas of comparative advantage. "New" refers to both products that are new to the local economy and to new technologies for producing an existing product. The Industrial Policy Resolution of April 1948 envisaged a mixed economy for India. It declared that public sector would play an effective and dominant role in the future economic development of India.

1.3 Policies Before 1990s

The post-Independence economic development of India is unique in several ways. In an innovative effort, the founding fathers adopted the middle course of a

mixed economy, assigning a pivotal role to public sector and economic planning. This new approach to social-economic growth was set within a framework of federal polity based on parliamentary democracy guaranteeing universal franchise.

Following so many problems in industrial front like inability to maintain a sustained rate of growth, under-utilization of existing capacity, lop-sided pattern of industries, disparity between employment and output, unfavourable capital-output ratios, imbalance between heavy industry and wage goods industry, regional industrial imbalances, etc., policymakers in order to get rid of these, went in for introducing industrial policies from time to time to revive the economy.

1.3.1 Industrial Policy Resolution 1948

The first policy for India's industrial development was the Industrial Policy Resolution (IPR) of 1948. The policy envisaged a mixed economic system in which importance to both the public and the private sectors was accorded. The private sector was, however, allowed to function with adequate regulation. The major features of this policy were the following:

(i) **Division of Industries:** The industries were divided into **four** broad categories.

In the first category certain crucial sectors for industrial development were reserved for Government initiative. Thus, manufacture of arms and ammunition production and control of atomic energy, ownership and management of railways became Government monopolies.

The second category covered coal, mineral oils, iron and steel, aircraft manufacture, and telecommunications equipment. The operation of these industries were also to be undertaken by the state only.

In the *the third category* **18** industries including automobiles, tractors, prime movers, electrical engineering, machine tools, heavy chemicals etc., were allowed in the private sector subject to government regulation and supervision.

The fourth category, covering the remaining of the field, was left open to private enterprise, but the state would progressively participate and " would not hesitate to intervene wherever the progress of private enterprise was unsatisfactory."

(ii) **Role of Foreign Capital:** The need for foreign capital to boost the pace of industrialisation was recognised. However, it was specified that the ownership and management in industries with foreign capital would rest with Indians.

(iii) **Role of Cottage and Small Scale Industries:** The role of cottage and small scale industries in industrial development was recognised especially those suited for local resource utilisation, and for creating jobs.

(iv) **Labour Policy:** To foster a harmonious relation between the labour and management, a policy of fair wages and labour participation in management was proposed to be followed.

Within the above framework, the architecture for the industrial development of India was laid out and pursued for the next eight years.

The shared experience of colonialism had created, in the 1950s, a consensus among economists and politicians on the need to restrain trade and build a strong government. It was then held that free trade and a non-interventionist state had impoverished and 'drained' the resources of colonies. Emulating the Soviet model, industrial policy placed emphasis on the development of heavy machinery and material production. Since domestic production of goods and expensive resource like capital led to high cost of production, tariffs were steeply raised. On the other hand, scarce resources needed to be rationed, which led to industrial licensing under which central government permission was needed for both investment in new units and for substantial expansion of capacity in existing units. Lisensing also controlled technology, output mix, capacity location and import content. Large industrial houses needed separate permission for investment or expansion under the Monopolies and Restrictive Trade Practices (MRTP) Act so as to prevent the concentration of economic power. There were price and distribution controls in industries such as fertilizers, cement, aluminium, petroleum, and pharmaceuticals. Almost 800 items were reserved for production by small-scale units as a way of protecting the small-scale sector from competition from large –scale units. There were also barriers to industrial restructuring and exit of firms.

This new ISI policy depended for its success on comprehensive controls. The government was the sole channel for import of essential raw materials. To reduce the fiscal burden, exchange rates were fixed and overvalued. Because the government had privileged access to scarce resources, government investment in capital-intensive

industry became inevitable. The public sector established industries. In is in this background that IPR 1955 were introduced.

1.3.2 Industrial Policy Resolution, 1956

The adoption of the socialistic pattern of society in 1954 and the launching of the Second Five Year Plan in April 1956 necessitated some changes in the Industrial policy. The Second Industrial Policy Resolution of April 1956 is a landmark in the evolution of industrial policy and continued to form the basis of future statements. In fact, certain significant changes took place in the Indian economy in the eight years following the implementation of IPR 1948. These are: (i) completion of the first Five Year Plan (1951-56); (ii) enactment of The Industries Development and Regulation Act was passed in 1951; and (iii) adoption of a 'socialistic pattern of society' as the goal of the country.

The Industrial Policy Resolution of 1956, called by some as the "Economic Constitution of India", or "The Bible of State Capitalism", observed, "The adoption of the socialistic pattern of society as well as the need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector".

Against this backdrop, the IPR, 1956 was adopted with the following important features:

(i) **Division of industries**

Schedule A Industries: These Schedule listed **17** industries which included, *inter alia*,(i) arms and ammunition,(ii) atomic energy,(iii) railways, (iv) iron and steel,(vi)heavy castings and forgings of iron and steel, (vii) heavy plant and machinery, (viii) heavy electrical plant, (ix) aircraft, (x) shipbuilding (x) coal and lignite, (xii)mineral oils (xiii) minining of iron ore, manganese ore, chrome ore, gypsum, sulpher, gold and diamonds, (xiv) mining and processing of copper, lead, zinc, tin, molybdenum and wolfram, (xv) minerals specified in the Schedule to the Atomic Energy, (xvi) telephones and telephone cables, telegraphs and wireless apparatus, and (xvii) generation and distribution of electricity. These industries were reserved for exclusive development in the public sector.

Schedule B Industries: These included industries which were to be progressively owned by the Government and in which the Government would set up new

enterprises. However, private sector was expected to supplement the efforts of the Government. This list included **12** industries, the leading ones being aluminum, machine tools, fertilizers, road transport, and sea transport and, synthetic rubber.

Schedule C Industries: These contained the rest of the industries which were open to private-sector development but under the general control of the Government. The provision of compulsory licensing for industries was strengthened in this IPR with all the schedule B and a number of schedule C industries coming under this purview. This established the so-called 'License Quota – Permit Regime (Raj)' in the economy. The main objectives of IPR,1956 were :(i) to accelerate the rate of growth and to speed up industrialization, (ii) to develop heavy industries and machine making industries and (iii) to expand public sector.

(ii) Mutual Dependence of Public and Private Sector:

The government sector and the private sector were to be mutually dependent rather than mutually exclusive. Apart from four sectors i.e. arms and ammunition, atomic energy, railways and transport, the private sector could operate in any other area reserved for the State. The government too could enter category C. Requirements of the public sector establishments could be met from by-products of the private sector and vice-versa.

(iii) Importance of Small-Scale Industries:

The 1956 Resolution too recognised the importance of the small-scale and cottage industries in creating employment opportunities, ensuring a more equitable distribution of income and wealth, etc. The State would help this sector by following a differential taxation policy. It will also help the small-scale sector through direct subsidies and provide help in modernising their techniques.

(iv) Reduction of Regional Disparities:

In order to spread industrialisation benefits to the country as a whole, the 1956 Resolution proposed improvement of transport facilities and power in the backward regions to reduce the regional disparities. The State would encourage the development of industries in the private sector through the provision of transport, power and other services and through appropriate fiscal and other policies. Special assistance would be given to enterprises organised as cooperatives.

(v) Industrial Peace:

It was recognised that in the socialistic democracy, labour is an important participant in the development process and for maintaining industrial peace and improving the living and working conditions of labour, necessary steps would have to be taken.

(vi) Skill Formation:

The resolution accepted that there was a shortage of skilled technical and managerial personnel in the country and hence there was a need to set up technical institutions and management courses in universities.

(vii) Foreign Capital:

As in the Resolution of 1946, the same policy towards foreign capital was proposed in the 1956 Resolution.

It was this industrial policy in which the then PM Pandit Jawaharlal Nehru had termed the PSUs the 'temples of modern India', symbolically pointing to their importance. This is considered as the most important industrial policy of India by the experts as it decided not only the industrial expansion but structured the very nature and scope of the economy till 1991 with minor modifications. All the industrial policies were nothing but minor modifications in it except the New Industrial Policy of 1991.

But the IPR 1956 did not get a very favourable response from the private industrialists because they were apprehensive of the major role to be played by the public sector. Private sector apprehended that the expansion of the public sector meant swallowing of the private sector. But this criticism was unfounded. In fact, the Resolution gave ample scope for the expansion of the private sector. Even in Schedule A, private sector had been allowed to operate in appropriate cases.

1.3.3 Industrial Policy Statement, 1977

A New Industrial Policy was introduced on 23 December, 1977 under the leadership of Morarji Desai. The 1977 industrial policy of the Janata Government at the Centre laid special stress on the promotion of cottage and small-scale industries in both urban and rural areas. It proposed revamping of Khadi and Village Industries Commission to enlarge its area of operation. The policy underlined an expanding role for the public sector and was lukewarm towards foreign private capital.

Special attention had been given to units in the “tiny sector”, that is, units with investment up to ₹ one lakh and situated in towns and villages with a population not exceeding 50,000.

With respect to sick units, the government announced that it would take over the management of these only selectively.

(i) Foreign investment in the unnecessary areas was prohibited (opposite to the IPS of 1973 which promoted foreign investment via technology transfer in the areas of lack of capital or technology). In practice, there was a complete ‘no’ to foreign investment.

(ii) Emphasis on the village industries with a redefinition of the small and cottage.

(iii) Industries: Decentralised industrialization was given attention with the objective of linking masses to the process of industrialization. The District Industries Centres (DICs) were set up to promote the expansion of the small and cottage industries at a mass scale.

(iii) This policy statement gave greater importance to reservations for small-scale and village industries. The motivations were employment generation and regional dispersion of industries.

(iv) Democratic decentralization got emphasis and the Khadi and Village Industries were restructured.

(v) Serious attention was given on the level of production and the prices of the essential commodities of everyday use.

It is in this industrial policy framework some sort of domestic liberalization began. These are: raising the exemption limit of industrial licensing, relaxation of MRTP etc.

In sum, the period from 1948 to 1977 experienced stagnant industrial growth at the rate of 5.5 per cent per annum. However, significant diversification of the industrial structure was achieved. But total factor productivity is estimated to have stagnated/ declined during the above period. The high-cost industrial structure

resulting from the heavily protectionist policy regime created an anti-export bias in the industrial sector and the erosion of competitiveness brought about a secular decline of India's share in global exports of manufactured goods from 1 percent in 1950 to 0.4 per cent in 1980.

1.3.4 Industrial Policy of 1980

A new policy statement was announced in July 1980. This statement criticized the previous two governments for low capacity utilization in many industries, infrastructural gaps, and erosion of people's faith in the public sector.

The new government revised the industrial policy of 1977. This 1980 Industrial Policy aimed at increasing industrial production through proper utilisation of installed capacity and expansion of industries so as to make more goods available to the Indian public at reasonable prices.

The major initiatives of the policy were as given below:

(i) Foreign investment via the technology transfer route was allowed again (similar to the provisions of the IPS, 1973). (ii) The 'MRTP Limit' was revised upward to r 50 crore to promote setting of bigger companies. (iii) The DICs were continued with. (iv) Industrial licencing was simplified. (v) Overall liberal attitude followed towards the expansion of private industries.(vi)The 1980 industrial policy raised the limits of investment prescribed for small-scale and ancillary units. It also liberalized and streamlined the industrial licensing procedures.

The 1980 Policy was thus guided by the considerations of capital intensive growth with employment generation taking a somewhat backseat. Despite its thrust in the small scale sector, it received 'residuary' treatment in the distribution of raw materials. As a result, industries did not disperse to the backward areas but remained concentrated in the developed regions.

1.3.5 Industrial Policy, 1985: A Move towards Liberalization Measure

The so-called inward-looking, ISI strategy began to be widely questioned with the beginning of 1980s. Policymakers started realizing the drawbacks of this strategy which inhibited competitiveness and efficiency, producing a much lower rate of

growth than expected. By mid-1980s, it was clear that drastic shift in policy was needed to speed up the rate of growth. Economic reforms were set in motion, though on a modest scale, in 1985l for the industrial sector. After assuming power at the Centre, the Government of Prime Minister Rajiv Gandhi introduced a series of measures, through its 1985 industrial policy, to reduce control on industries, particularly large industries. In an address to the conference of state industry ministers, New Delhi on 10 December 1986 he had voiced forth: “But what has MRTP done? Has it prevented the big houses from growing bigger! Has it, in any way, given protection to the middle-and small-scale sector ? All it has in fact done is that it has protected the large monopoly houses from anybody else entering the field….I think we are going down a totally wrong road…. I feel that we are tremendously hampered and we need to look at it afresh… and to look at it and see whether we are achieving what we set out to achieve.”

However, the measures done in this regime included:

(i) Delicensing of non-MRTP and non-FERA companies for 31 industry groups and MRTP/FERA companies in centrally-declared backward areas for 72 industry groups,

(ii) Broad-banding of certain industries, e.g., machine tools,

(iii) The threshold (minimum) asset limit for companies under MRTP Act was raised from r 20 crore to r 100 crore. As a consequence, 112 companies were freed from the purview of the MRTP Act leaving 379 under the same Act,

(iv) Investment limit in small-scale industries was drastically revised upward from r 20 lakh to r 35 lakh.

(v) Foreign investment was further simplified with more industrial areas being open for their entries.

(vi) The provision of industrial licensing was simplified. Compulsory licensing now remained for 64 industries only.

(vii) High level attention was placed on the sunrise industries such as telecommunication, computerization and electronics.

(viii) Modernization and the profitability aspects of the public sector undertakings were emphasized.

(ix) Industries based on imported raw materials got a boost.

(x) The reservation of production for the small-scale sector continued even while it constituted an important hurdle in the way of developing export capability in labour-intensive sectors such as garments, leather products, and sports goods, where India has the comparative advantage.

(xi) To improve efficiency and promote exports, export subsidies were provided in order to offset the anti-export bias.

These industrial provisions were attempted at liberalizing the economy without any slogan of 'economic reforms'. Following this industrial policy, productivity in the Indian manufacturing grew more than earlier two decades. The industrial growth rate also accelerated. Exports of manufactured goods grew. A 45 per cent depreciation in the real effective exchange rate in the second half of the 1980s was one of the factors responsible for a significant acceleration in the growth of exports from 4.5 per cent per annum in the first half of the 1980s to 21.4 per cent per annum in the second half. The government of the time had the mood and willingness of going for the kind of economic reforms which India pursued post-1991 but it lacked the required political support.

But the so-called heavily import-dependent model of industrialization during the Rajiv Gandhi's regime brought about macroeconomic imbalances largely on account of the growing fiscal profligacy of the Government of India. To this added, the Gulf War of 1990 and political instability. These events triggered to a very steep balance of payments (BoP) crises in 1991.

The response to the BoP crisis was to introduce Industrial Policy along with other policy changes in trade, tax and financial sectors.

In what follows, Indian policy can be divided into two phases. First came nearly half a century of socialism, where the guiding principles were economic nationalism and protectionism. During those years, the public sector occupied the commanding heights and the government intruded into even the most micro-decisions of private firms: their investing, producing, and trading. This framework was rejected after 1991 and several new policies were introduced in its place.

1.4 New Industrial Policy 1991 and After

The process of economic reforms initiated in 1985 got a big boost when the Government of Prime Minister Mr. Narsimha Rao and Finance Minister Manmohan Singh announced a New Industrial Policy in the Indian Parliament on July 24, 1991. The new policy introduced three sets of radical changes i) "to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls", (ii) to introduce liberalization with a view to integrate the Indian economy with the world economy, (iii) to remove restrictions on foreign direct investment (FDI) as also to free domestic entrepreneurs from the restrictions of MRTP Act and, to shed the load of the public sector enterprises which have shown a very low rate of return or were incurring losses over the years. Some of the provisions of the new policy were the following:

(i) **De-reservation of industries**: Industries which were reserved for the central government by the IPR, 1956 were cut down to only 8 including nuclear energy, nuclear research and related activities and railways.

(ii) **Abolition of industrial licensing** or **De-licensing of Industries**: It abolished industrial licenses for all projects, except for a short list of 18 (now 2) specified industries related to security and strategic areas, social areas, social reasons, hazardous chemicals, environmental reasons, and items of elitist consumption. Reforms regarding the area were further followed and presently there are only 2 industries which carry the burden of compulsory licencing.

(iii) **Abolition of MRTP limit**: It removed the asset limits for MRTP totally. The MRTP Act is now used for controlling and regulating monopolistic, restrictive, and unfair trade practices. The MRTP Commission was given powers to initiate investigations suo moto or on complaints received from individual consumers or classes of consumers about monopolistic, restrictive, and unfair trade practices.

The MRTP limit was r 100 crore so that the mergers, acquisitions and takeovers of the industries could become possible.

In 2002, a Competition Act was passed which has replaced the MRTP Act. In place of the MRTP Commission, the Competition Commission has started functioning.

For the first time, sick public units have come under the purview of the Board of Industrial and Financial Reconstruction (BIFR)

(iv) Promotion of foreign investment : It raised the limit for foreign equity holding from 40 per cent to 51 per cent. The automatic clearance for direct foreign investment up to 51 per cent in high priority areas was a clear signal that the foreign investment was welcome.

In fact, the new industrial policy was a path-breaking step in this regard. Not only the draconian FERA was committed to be diluted but the government went to encourage foreign investment (FI) in its both forms—direct and indirect. The direct form of FI was called as the foreign direct investment (FDI) under which the MNCs were allowed to set up their firms in India in the different sectors varying from 26 per cent to 100 per cent ownership with them—Enron and Coke being the flag-bearers. The FDI started in the year 1991 itself. The indirect form of foreign investment (i.e in the assets owned by the Indian firms in equity capital) was called the portfolio investment scheme (PIS) in the country which formally commenced in 1994. Under the PIS the foreign institutional investors (FIIs) having good track record are allowed to invest in the Indian security/stock market. The FIIs need to register themselves as a stock broker with the SEBI. It means India has not allowed individual foreign investment in the security market still, only institutional investment has been allowed till now.

The new policy also announced automatic permission for foreign technology agreements in high priority industries. Moreover, the policy made liberal provisions for hiring foreign technicians, and foreign testing of indigenously developed technology.

(v) Disinvestment: With a view to raise resource and ensure wider participation, the new policy announced disinvestments in public sector undertakings in favour of mutual funds, financial institutions, workers, and the general public. While reservation of industries for the public sector was retained, there would be no bar for opening such areas to the private sector selectively.

The industrial policy announced in 1991 was generally welcomed for ensuring competitive and market economy in place of the outmoded command and controlled economy. Many saw it as a reversal of the 1956 Industrial Policy Resolution. Since then, successive Governments have carried forwards the reforms in industrial sector, financial sector, fiscal sector and external sector. It is liberalization, privatization and globalization all the way, though some believe the reforms are taking place at a slow speed. The process of industrial liberalization is continuing in the Indian economy. Private sector has been invited to invest in oil exploration and refining which are otherwise reserved for public sector. Similarly, power sector is now open to bother domestic and foreign private investment. Government has also allowed private sector activities in the mining industry. Apart from the Central Government, many State Government have initiated significant procedural and policy reforms to promote foreign investment and encourage domestic private participation in the development of their respective States. While the inventive package varies from State to State depending upon their investment priorities, some common features are discernible. These include development of industrial States, removing artificial barriers within State, decentralization of decision-making, time-bound clearance of projects, investment subsidy, exemption/deferment of sales tax and power tariff concessions.

The New Industrial Policy of 1991 thus proposed liberalizing, globalizing and privatising the industrial sector. Towards this end, three sets of reforms were introduced. These were: ONE, deregulation, de-licensing, decontrol and de-bureaucratisation of industrial licensing system; TWO, liberalization of foreign trade and currency transactions; and THREE, initiation of several measures to facilitate foreign direct investment inflows. All these measures were launched in 1991 and since then, continued liberalization measures have been introduced every year in each new budget.

However, many policy measures related to industry taken by the BJP-led NDA government in recent years for creating enabling environment for industrial growth have started showing its impact on increased FDI inflows, better performance of infrastructure sector.

The landmark initiatives are mentioned below:

(a) ***Make in India—India's First Spatial Strategy for Growth:*** This is launched on 25th September 2014 which aims at making India a global hub for

manufacturing, research & innovation and integral part of the global supply chain. The Make in India is a concept or initiative rather than an act or law or even a clearly enunciated policy, which means that there is no statutory documentation of its ambit. The Government has identified ten 'Champions sectors' that have potential to become global champion, drive double digit growth in manufacturing and generate significant employment opportunities.

(b) ***Skill India:*** *'National Policy for Skill Development and Entrepreneurship 2015'* aims at preparing a highly skill workforce which is completely aligned to the requirements of industry so as to promote growth through improved productivity. Make in India and skill India is complementary to each other.

(c) **E*ase of Doing Business:*** In its International Finance Corporation (IFC)'s Doing Business Report 2017, India ranks 130 out of 190 countries. India improved its performance on two parameters— getting electricity and enforcing contracts, but saw its performance deteriorating with regard to five parameters— dealing with construction permits, getting credit, protecting minority investors, paying taxes, and trading across borders.

(d) ***Start Up India*****:** This was launched in 15the August, 2015 in order to promote innovation and entrepreneurship among enterprising youth of our country. In the economic landscape of the country, this initiative providing 19 action items has introduced several forward looking things like Sart Up hubs, Twitter Seva, tax incentives for Seart up companies, Ucchattar Avishkar Yojana, etc.

(e) ***Digital India*****:** The Digital India Programme was launched on 1 July, 2015, making aim at 'inclusive growth' in the areas of electronic services, products, manufacturing and job opportunities, etc., centred to three key areas, viz, Digital Infrastructure as Utility to Every Citizen, Digital Services and Governance on Demand and Digita, Empowerment of Citizens. The overall scope of the programme may be reiterated as:

i. to prepare India for a knowledge future;

ii. on being transformative, that is to realize Indian talent (IT)+ Information technology (IT) = (IT) (India Tomorrow);

iii. making technology central to enabling change;

iv. on being an umbrella programme, covering many departments; and

(f) ***Intellectual Property Rights (IPR) Policy*** : This was launched on May 2016 for the first time to lay future roadmap for intellectual property in order to improve Indian intellectual property ecosystem, hopes to create an innovation movement in the country and aspires towards "Creative India; Innovative India" etc.

No doubt, these new initiatives will provide impetus to industries and the industrial sector is expected to be the key driver of economic growth in the country. We may cite here recent initiative of the Government called the **Pradhan Mantri Mudra Yojana** for development and refinancing activities relating to *Micro, Small and Medium Enterprises (MSME) Sector* which will play a crucial role in providing large scale employment opportunities at comparatively lower capital cost than large industries and also in industrialization of rural and backward areas. Besides, for the purpose of promotion of employment in the leather and footwear sector— a highly labour-intensive sector—, a scheme was announced in December 2017 with an outlay of r 2600 crore over three financial years from, 2017-18 to 2019-2020.

These initiatives may also help in transforming infrastructure sector which is *sine qua non* for achieving and sustaining higher economic growth.

Differences between 1956 and 1991 Industrial Policies

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to industrial policy. While the Industrial Policy of 1991 sought to bring about with the objective of increasing efficiency, gaining a greater competitive environment domestically, and achieving modernization of the economy, the counterpart Trade Policy set out in the same year, sought to improve international competitiveness. The current industrial policy makes an attempt to integrate the Indian economy with global capitalism. Delicensing, deregulation and debureaucratization are the main

agendas of the 1991 Industrial Policy. On the contrary, The IPR of 1956 was designed to control and regulate the industrial policy move on socialist lines.

The current policy differs from the IPR 1956 in many respects:

(i) The IPR 1956 classified industries into three categories and State shall play the role in each case. The 1991 Policy Resolution aimed at restricting the role of public sector only in two industries where security and strategic sectors (that is, Production of atomic energy and railway transport) predominate. Core industries like iron and steel, generation and distribution of electricity, etc., are now free from reserved list. The development of these industries is now left free in the hands of private sector.

(ii) The new policy removes the ' licence-permit-quota raj' of the earlier policy.

(iii) The new policy has scrapped the MRTP asset limit. Previously, under the MRTP Act, MRTP companies were not allowed to enter selected industries without any prior approval of the government, and

(iv) The current policy recognises 'outward–looking development strategy', instead of the old 'inward- looking strategy' in that under the new policy, a specified list of industries has been prepared where automatic approval would be given for FDI up to 51 per cent foreign equity. It was limited to 40 percent equity participation in earlier ones.

1.5 A Note on Competition Commission of India

While the focus of MRTP Act, 1969 was on controlling the concentration of economic power, the focus on Competition Act, 2002 is on ensuring free and fair competition in the markets.

Realizing that the MRTP Act had lost its relevance in the new liberalized and competitive scenario, the Competition Commission of India (CCI) was set up to replace the anachronistic MRTP Act following the recommendation of the Ragavan Committee. It was established to eliminate practices that adversely affected competition in different industries and thereby protect the interests of consumers. The Competition

Act of 2002 was enacted to foster a spirit of competition for excellence by establishing a level playing field by transparent procedures and practices. The Act called for the creation of a Competition Commission of India (CCI). Established in 2003, it became fully functional only by 2009. The CCI is a quasi-judicial body with its specific function as follows:

(a) play the role of a market regulator to curb anti-competitive behaviour that may distort competition;

(b) prohibit the abuse of dominant position by an enterprise or group; regulate the Merger and Acquisitions that may cause adverse effect on competition; and

(c) create awareness and impart training on competition issues through advocacy.

In the seven years of its functioning, the CCI has made its presence felt in various industries as diverse as cement, automobiles, pharmaceuticals, real estate, and ITeS. The Government must also be given credit for not interfering in the functioning of the CCI given the high stakes involved in mergers and acquisitions. However, in several cases the legality of CCI orders has been questioned leading to a debate on the nature and objective of the quasi-judicial regulator. The Competition Appellate Tribunal (COMPAT) has struck down several CCI orders mainly for violation of the principle of natural justice that provides everyone a fair hearing before law. There are also concerns regarding validity of CCI as it may infringe upon the functional domain of other sector specific regulators like the RBI and SEBI.

Future challenges before the CCI includes streamlining its processes to reduce the time taken to clear merger filings. Initially, it took less than 30 days, but because of the increasing number of applications, the time taken has doubled. Since the CCI is being seen as a hurdle in doing business in India, it has to establish itself as its role to promote fair competition in the market, otherwise the the antitrust watchdog CCI would be toothless.

1.6 Conclusion

Since the inception of planning several industrial policy reforms have been introduced aimed at making the Indian industries more competitive internationally. A

number of industries have acquired the technical expertise needed to set up and operate firms worldwide. These industries have further gained access to superior technology abroad enabling them to enhance their domestic capabilities. However, the industrial sector has not been able to generate employment as many of these industries are not labour intensive. A notable feature of industrial growth has been 'a faster decline in the share of agriculture in the GDP compared to the earlier decades' and a steep 'increase in the corresponding share of the services sector'. In Post liberalisation, many restrictions on the industries have been done away with.

As a result, the economy has been opened up to make the industries more competitive. Thus, the industrial sector has been evolving and adapting to the changes within the economy as well as internationally.

1.7 Key Terms Simplified

Industrial policy: Industrial policy is an economic development strategy in which a national government identifies key domestic industries, critical to country's economic future and then formulates policies that promote the industrial competitiveness of these industries. The main purpose of industrial policy is to diversify the economy and generate *new* areas of comparative advantage.

Industrial Policy Resolution: These are policy documents issued from time to time to streamline the growth of the Indian industries in a desired direction. The policies have aimed at developing a strong public sector base for capital goods production and encouraging the private sector to gain excellence in the consumer goods segment in the private sector.

Competition Commission of India: A post-liberalisation institutional arrangement to foster healthy competitive environment for the industries by establishing a level playing field with transparent policies and practices and especially to curb anti-competitive practices.

Make in India: The 'Make in India' programme was launched on 25th September 2014 which aims at making India a global hub for manufacturing, research & innovation and integral part of the global supply chain. The Government has

identified ten ‘Champions sectors’ that have potential to become global champion, drive double digit growth in manufacturing and generate significant employment opportunities.

National Intellectual Property Rights (IPR) Policy.2016: On May, 2016, Government for the first time adopted a comprehensive National Intellectual Property Rights (IPR) policy to lay future roadmap for intellectual property. This aims to improve Indian intellectual property ecosystem, hopes to create an innovation movement in the country and aspires towards “Creative India; Innovative India”.

Start-up India: In order to promote innovation and entrepreneurs among Indi’s burgeoning young generations, the Hon’ble Prime Minister of India had announced the “Startup India, Standup India” initiative on Independence Day (15th August 2015). The initiative aims to create an ecosystem that is conducive to growth of Startups. An Action Plan for Startup India comprising 19 action points was unveiled on 16th January, 2016. Government has acknowledged the need to reduce the regulatory burden on Startups and have allowed them to self-certify compliance under 3 labour laws and 6 environment laws.

Towards furtherance of the success of the campaign, the Ministry of HRD Department of Science and Technology have joined hands to set up 75 startup support hubs in NITs, IITs, ISERs and NIPERS. India’s demographic dividend is conducive to startup in two ways. On the supply side, it is contributing to higher income and savings per earning members and threby boosting investment capacity. On the demand side, it is creating a large consumption base. Yet Start ups are facing many callenges.

Pradhan Mantri Mudra Yojana The Pradhan Mantri Mudra Yojana is government initiative programme for development and refinancing activities relating to micro industrial units. The purpose of Micro Units Development and Refinance Agency (MUDRA) is to provide funding to the non-corporate small business sector. The Government has also set up the MUDRA Bank. Loans extended under the Pradhan Mantri Mudra Yojana (PMMY) during 2016-17 have crossed the target of r 1.8 lakh crore. Of this amount, r 1.23 lakh crore was lent by banks while non-banking institutions lent about r 57,000 crore. In December 2017 total number of borrowers were 10.1 crore, out of which 7.6 crore were women.

1.8 Questions with Answer Hints

Questions Carrying 2.5 marks

1. **What were the four broad heads under which the major features of the very first post-independence Industrial Policy Resolution of 1948 were outlined?**

   [Ans: See Section 3.1.1]

2. **What prompted the Government of India to announce its second Industrial Policy Resolution of 1956?**

   [Ans: See Section 1.3.2]

3. **Which are the only two industries that are since 1991 left for public sector?**

   [Ans: The 1991 Policy Resolution aimed at restricting the role of public sector only in two industries where security and strategic sectors (that is, production of atomic energy and railway transport) predominate.]

4. **Why is IPR 1956 considered the most important industrial policy of India?**

   [Ans: See Section 1.3.2's last but before para.]

5. **State the three sets of reforms which broadly signify the NIP of 1991**.

   [Ans: See Section 1.4 First Para]

6. **What is Start-up initiative?**

   [Ans: See Key terms simplified]

7. **What is Make-up Programme?**

   [Ans: See Key terms simplified]

8. **What is National Intellectual Property Rights (IPR) Policy.2016?**

   [Ans: See Key terms simplified]

9. **What is PradhanMantri MUDRA Yojana?**

   [Ans: See Section 1.7]

Questions Carrying 5 marks

1. **State the eight major heads under which the broad features of IPR, 1956 were outlined. Why did the IPR, 1956 did not receive a favourable response from the private industrialists?**

   [Ans: Ans: Section 1.3.2., See Section 1.3.2 (last para) for the second question.]

2. **State the major measures proposed by the 'Industrial Policy of 1980'? How were the SSIs defined under this?**

   [Ans: See Section]

3. **Write a short note on Competition Commission of India.**

   [Ans: See Section 1.5]

4. **What is Start-up India, What is its aim?**

   [Ans: See Section 1.7]

Questions Carrying 10 marks

1. **What is industrial Policy? What are the essential features of 1991 Industrial Policy?**

   [Ans: See Section 1.4]

2. **What are the essential differences between 1956 and 1991 industrial policies? Elucidate.**

   [Ans: See Section 1.4]

1.9 References

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Unit 2 ☐ LABOUR LAWS AND REGULATIONS

Structure

2.1 Objectives

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2.7 Labour Laws : What must be done?

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2.9 Key Terms Simplified

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Questions Carrying 2.5 marks

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2.11 References

2.1 Objectives

After reading this unit, you will be able to:

- define labour policy;
- state the objective of any labour policy;

- know the labour policy prior to Independence;
- identify the interconnection between constitution and labour policy;
- analyse in detail the labour policy enshrined under labour laws and regulations after independence;
- list the social security schemes for organised and unorganised sector workers in India in recent years;
- have an idea of Labour reform measures recently initiated by the Government; and
- capture the idea: What should be done concerning labour rules and regulations.

2.2 Introduction

A labour policy usually refers to the laws, rules, regulations and measures applicable to labour employed in organized and unorganized industries. The labour policy is an ever-increasing arm of the government dealing with problems of economic and social nature.

We may define labour policy as a policy which includes of all those policies, practices and procedures of the government, whether statutory or potential, as are affected through generally recognized instruments of action that deal entire universe of labour. However, labour policy has been evolving in response to the specific need of industry and the working class and suit the requirement of a planned economic development and social justice.

The objective of any labour policy is to ensure an environment which is conducive to labour-management cooperation. For this purpose, the government, being the supreme law making authority, has to play and does play a vital role in structuring or re-structuring industrial relations. It tries to maintain a balance between labour and management by establishing legal, social and economic norms. It also endeavours to adopt the legislative and administrative machinery to bring about desired changes in the social norms. The Government needs to formulate a set of laws and regulations to guide its activities in the field of labour relations. The Government then is said to pursue a 'labour policy'.

It is noteworthy to mention here that ‘labour’ belongs to the Union, State and Concurrent Lists of the Indian Constitution.

2.3 Labour Policy Prior to Independence in India

When the Royal Commission on labour was set up in 1929 and its reports submitted in 1931, the working class in India was neither sufficiently organized nor properly stabilized. In view of the prevailing conditions of strikes and lockouts resulting in strained relations between the employers and the employees, the Commission recommended trade unions’ right of negotiation, setting up of Labour Welfare Officer, Wage Boards, Works Committee, maternity benefit legislation, housing facilities, permanent statutory machinery to deal with disputes etc. Hence the labour policy, in the initial stages, may be said to have originated with the recommendation of this Royal Commission.

It was during the World War II that a need was deeply felt to improve labour conditions in order to achieve improvement in production to meet war needs. With the war coming to close, the urgency was felt all the more for adopting a positive and determined policy with a view to securing a high standard of living for the workers and the continuous supply of skilled hands to India’s growing industries.

Another landmark in the field of labour policy was the appointment of the Labour Investigation Committee in 1944 to look into the problems of wages, employment, housing risks, factory conditions etc. The Commission reported its recommendations in 1946. It recommended a code of safety to reduce accidents, state insurance against employment injury, occupational diseases and maternity benefits, linking dearness allowance (DA) with cost of living index and recognition of trade unions.

With the coming into power of a national popular government in 1947, it was realized that without satisfying the labour class, the industrial development was not possible, and hence serious thought was given to the formulation of a national labour policy. The aim was to give labour ‘a fair deal consistent with the requirement of other sectors of the economy’. The then Ministry of Labour drew up a four-year phased programme, 1947-51, to develop basic labour standards in respect of working conditions, health, welfare and safety in industrial undertakings. The programme

attempted to: (a) revise the existing labour legislation to meet the changing needs of the time; (b) eliminate completely and or control contract labour; (c) extent employment opportunities/exchanges to cover all classes of workers. (d) evolve fair terms of service and deal for workers; (e) fix wages in sweated industries, rationalized rates of DA to promote fair wages agreement; and (f) lay down the nucleus for an industrial health insurance programme.

The industrial policy statement of 1945 had emphasized that one of the objectives of new industrial policy would be, 'to secure for industrial workers a fair wage, decent conditions of work and reasonable security of tenure'.

In Independent India, the Constitution which was enacted in 1950 ensured a decent living of working conditions, a living wage and social security for workers.

2.4 Constitution and Labour Policy

The labour policy derives its philosophy and content from the Directive Principles of State Policy as laid down in the Constitution and has been evolving in response to the specific needs of the situation and to suit the requirements of planned economic development and social justice.

As laid down article 43, "The State shall endeavour to secure, by suitable legislation and economic organization, or in any other way, to all workers, agricultural industrial or otherwise, work a living wages, condition for work ensuring a decent standard of life and full employment of leisure and social and cultural opportunities".

Under India's Constitution, labour is in the Concurrent list, a list of policy areas in which both the central (federal) and state governments are empowered to legislate. Economic Survey, 2016 -17 articulates that at present, there are 39 Central labour laws and more than150 state labour laws that regulates various aspects of the labour market and employment relations, such as working conditions, wages, industrial relations (IR), social security and labour welfare.

While in the early years of industrialization, the labour policy was preoccupied mainly with the organized sections of the labour force, growing attention is being paid to the interest of the workers in the unorganized sector. Despite this, most labour laws apply only to the organized sector—that is, those establishments that employ

more than nine workers; they do not cover the unorganized (or informal) sector. Even within the organized sector, their coverage is far from complete (IHD/ISLE 2014). In this sense, a divide between the organized and unorganized sectors is created by the policy itself.

The legislative measures then on are evidences of diversification of labour policy to progressively fulfill the Directive Principles of the Constitution.

2.5 Labour Policy After Independence

Some of the most salient pieces of Indian labour legislation since independence can be listed under the headings: (A) The labour laws and regulations relating to working conditions; (B) The Labour laws regulating employee relations; (C) Labour Laws and Regulations relating to Wages and Monetary Benefits ; (D) Labour Laws and Regulations relating to Social Security and Insurance (for the organized as well as for the unorganized sector)

2.5.1 The Labour Laws and Regulations Relating to Working Conditions

Working people in India are employed in different sectors, including factories, shops and establishments, plantations, railways, mother transport undertakings, mines etc. In fact, presently nearly 60 per cent of the Indian work force is employed in the agriculture sector. This sector has been largely left out of the ambit of labour legislation. Agriculture workers are denied even the minimum wages following Minimum Wages Ac 1948. The Act could not be enforced in rural areas.

The Working conditions are governed principally by: (i) The Industrial Employment (Standing Orders) Act, 1946, which specifies the form of the employment contract (ii), The Factories Act, 1948; and (iii) The Contract Labour (Regulation and Abolition) Act, 1970

The Industrial Employment (Standing Orders) Act, 1946: This requires employers with industrial units that employ 100 or more workers. Like the factories Act, this is a central Act but the states are empowered to change some of its provisions.

The Factories Act, 1948: This Act that came into operation in April,1949, was one of the first pieces of labour legislation enacted after independence. Factories fall under the organized sector in India. The principal definition under the Act is of the term ‘factory’. It means premises whereby a manufacturing process is carried on with the use of power by 10 or more persons or by twenty or more persons without the use of power.

The Factories Act, 1948 is the corner stone of labor regulation in industrial sector; Shops and Establishments Act, a state legislation, for the services sector. The Factories Act is intended to protect the safety and working conditions; it mandates registration of all factories employing 10 or more workers using power on a regular basis (20 or more workers without using power); and, the mandated benefits for workers – provident fund, gratuity, provision of canteen in the work premises and so on – increase with the factory size.

The main provisions of the Factories Act are those related to: health precaution of workers, welfare and safety of workers in factories and plantations; conditions under which women work; working hours for adults and children [the maximum work hours have been fixed (48 hours a week or daily hours, not more than 9 hours). The use of child workers below 14 years is not allowed; leave with wages for workers; protection against hazardous operations; payment of over time; inspection of the work in factories by inspectors and the role of other authorities under this law. The Act obliges every employer to register his factory and obtain a license from the State government before the employer seeks to set up a factory.

This Act was substantially amended in 1987. This amendment was consequent to the Bhopal gas disaster that involved a factory of Union Carbide in the city of Bhopal in which nearly 8,000 people died and many thousands got disabled. This disaster also led to introspection by the Indian government about the adequacy of the provisions of the Factories Act. The amendment was carried out in 1987, and chapter IV-A was inducted in this Act. This amendment tightened the provisions related to hazardous processes.

The Amendment Act of 1987 substantially enhanced the penalties that can be inflicted on persons responsible for the violation of this Act. After the amendment imprisonment has also been enhanced up to two years and a fine of ₹ 100,000 can be inflicted for certain violations of the Act. In 1987, a major amendment incorporated elements of occupational health and safety into the factories Act.

The Factories (Amendment) Bill 2005 was introduced to provide flexibility in women's employment with adequate safeguards such as provisions of shelters, rest rooms, ladies' toilets. adequate protection of women workers' dignity, honour, safety, protection from sexual harassment, etc. It allowed women workers to do night shifts.

This Act was cruised on the ground that it does not cover workers of the unorganized sectors as also of very small establishments. Secondly, inspection of factories remains unsatisfactory.

The Legislation relating to Shops and Establishments

The shops and establishments legislation in India is not a central legislation. Rather, each state legislature had the power to enact a law in this regard. Different states have also framed their own rules applicable to the shops and establishments. Most states have somewhat similar legislation related to shops and establishments with minor differences here and there. Most workers who are employed in shops and establishments are believed to be in the informal sector; however, there are certain larger establishments as well such as motor transport companies, insurance companies, etc. So it covers larger as well as smaller shops and establishments.

The Mines Act, 1952

The Mines Act, 1952 provides for health, safety and welfare of workers employed in mines. The term "mine" refers to carrying on of any operation for excavation that goes on for the purpose of searching for or obtaining minerals.

This Act provides for various health and welfare provisions for those working in mines. They include, among other, supply of drinking water, medical appliances and conservancy. A person who has not attained the age of eighteen years is not allowed to work in a mine.

The Plantation Labour Act, 1951

The conditions of work of workers employed in plantations are regulated by the Plantation Labour Act, 1951 (PLA). The Act applies to plantations of coffee, rubber and cinchona. All plantations are required to be registered with a registration officer appointed under the Act. The provisions of PLA mainly deal with health and welfare measures.

The health and welfare measures provided under PLA include: drinking water, medical facilities, crèches, recreational facilities, educational facilities, and housing for workers and their families.

The Contract Labour (Regulation and Abolition) Act, 1970

Most of these workers work under difficult conditions and get low wages. The Contract Labour (Regulation and Abolition) Act, 1970 (CLA), seeks to regulate the employment conditions of such contract workers and to provide for its abolition in certain circumstances. As per CLA, all employers employing contract labour are required to register themselves with the registrar appointed by the appropriate government concerned. And the contractor working for the principal employers must obtain a license from the appropriate licensing authorities. It is important that the employer should employ contract labour in a legal way that is permissible under the law.

This law is now being used extensively— in many but not in all states— as recourse by employers and state governments to increase labour market flexibility within the existing legal regime.

The Act provides for certain health and welfare measures for contract labour as provided in chapter V of the CLA.

The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service Act, 1979

Indian industries employ a good number of inter-state migrant workers. The conditions of work of these workers are regulated by the Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979 (ISMWA). This Act was enacted with a view to protecting the migrant workers from exploitation. The Act seeks to provide them certain minimum conditions of employment.

The Act provides for issuing a passbook to every inter-state migrant worker, which shall contain full details about his or her employment, payment of displacement allowance, payment of journey allowance and payment of wages during the period of the journey, suitable residential accommodation and medical facilities, protective clothing, and equal pay for equal work irrespective of sex, etc.

Child Labour (Abolition and Regulation) Act, 1985

It is believed that the largest number of child workers in the world is to be found in India. The Child Labour (Abolition and Regulation) Act, 1985 (CLARA), was enacted to safeguard their interest. This law prohibits the employment of children below the age of fourteen years in factories and hazardous employment. Such employments, among other, include glass and glassware, fireworks and match making, and carpet weaving. In those cases where children are allowed to work, the Act regulates their employment. The working hours for children have also been fixed.

The National Policy on Child Labour declared in August, 1987, addresses the complex issue of child labour in a comprehensive, holistic and integrated manner. The Action Plan under this policy is multi-pronged and mainly consists of:

- A legislative action plan
- Project based action in areas of high concentration of Child Labour
- Focus on general development programmes for the benefit of the families of Child Labour

LEGISLATIVE ACTION PLAN

Under the Legislative Action Plan, the Child Labour (Prohibition & Regulation) Act, was enacted in 1986. As per the provisions of the Act, the employment of children below the age of 14 years was prohibited in 18 occupations and 65 processes. Now the Government has enacted the Child Labour (Prohibition & Regulation) Amendment Act, 2016, which came into force w.e.f. 01.09.2016. The Amendment inter-alia covers the complete prohibition on employment or work of children below 14 years of age in all occupations and processes; linking the age of the prohibition of employment with the age for free and compulsory education under Right to Education Act, 2009; prohibition on employment of adolescents (14 to 18 years of age) in hazardous occupations or processes and making stricter punishment for the employers contravening the provisions of the Act.

Project Based Action Plan in the areas of high concentration of child labour

In pursuance of National Child Labour Policy, the National Child Labour Project (NCLP) Scheme was started in 1988 to rehabilitate children rescued from child

labour. It is an ongoing Central Sector Scheme and at present sanctioned in 270 districts in the country. Under the Scheme, working children are identified through child labour survey, withdrawn from work and put into the special training centres so as to provide them with an environment to subsequently join mainstream education system. In these Special Training Centres, besides formal education, the children are provided stipend, supplementary nutrition, vocational training and regular health checkups.

As poverty is the primary cause of such a social evil, the educational rehabilitation of such children is further complemented by the economic rehabilitation of the families of child labour through the convergence approach so that the children and their families are covered under the benefits of the schemes of various Ministries/ Departments of the Government of India (*Ministry of Labour & Employment, Annual Report 2016-17*)

Re-alignment of NCLP Scheme with RTE Act, 2009

With the enactment of Right to Education Act, 2009, there was a need for realignment of the NCLP Scheme with the provisions of RTE Act, 2009. Ministry of Human Resource Development vide their letter No. 10-4/2009- EE.4 dated 2.7.2010 intimated that the NCLP Schools can serve as Special Training Centers for un-enrolled and out of school children in accordance with the provisions of Section 4 of the RTE Act and Rule 5 of the Right of Children for free and compulsory education (RTE) Rules, 2010.

2.5.2 The Labour Laws Regulating Employee Relations

The Indian labour law system provides for three principal industrial relations laws, which seek to regulate employer-employee relations. They are the Trade Unions Act, 1926 (TUA); the Industrial Employment (Standing Orders) Act, 1946; and the Industrial Disputes Act 1947 (IDA). All these three laws have been in existence for a long time; in fact they are all pre-independence pieces of legislation. The salient features of these three laws are discussed below.

The Trade Unions Act, 1926

The Trade Union Act, 1926 (TUA) provides for voluntary registration of trade unions and thus creates a countervailing power in favour of the working class in the

game of industrial relations. Interestingly, this Act provides that all employees employed in industry including managers can become members of trade unions.

Following the 2001 amendment to the Act, 10 per cent of the workforce, or 100 workers— whichever is less— has been necessary for the formation of a union, subject to a minimum of seven people. This law provides merely for voluntary registration of unions, and not for their recognition of collective bargaining This shortcoming in the law has been detrimental to the growth of collective bargaining and has contributed to strife in employment relations.

The Trade Union (Amendment) Act, 2001 (Act No. 31 of 2001), was aimed at reducing the multiplicity of unions, prohibiting professional politicians from becoming members of the executives of trade unions.

The Industrial Employment (Standing Orders) Act, 1946

was enacted to regulate terms and conditions of employment and to ensure 'standardisation' of the rules across employers through a model standing order, as well as to provide for adoption of principles of natural justice before employees are dismissed (e.g. for misconduct).

The objectives of the Industrial Employment (Standing Orders) Act, 1946 (IESOA), is to define with sufficient precision the conditions of work for different categories of workers and to make them known to them so that they develop some amount of consciousness about their employment rights. This act applies to industrial employments that employ 100 or more workers.

The *Industrial Disputes Act, 1947*

Seeks to prevent industrial disputes through works committees (bipartite enterprise-led councils) and grievance procedures at enterprise level; prevent and resolve industrial disputes (apprehended and actual disputes) through conciliation and adjudication, collective bargaining and voluntary arbitration; define unfair labour practices; define and regulate (by prohibition) the legality of strikes and lockouts; and regulate employer industrial actions like redundancies and retrenchments of employees and closure of establishments.

Perhaps the most important of all labour laws in India is believed to be the Industrial Dispute Act 1917 (IDA). The IDA of 1947 is one of India's labour laws; in fact, the principal legislation intended to resolve work place conflict. The state can

intervene in any dispute between employers and employees in the organized sector. Employers or employees are expected to inform the labour commissioner before declaring a lock out or going on a strike. In all such disputes, the labour commissioner is, in principle, a party to the decisions. On the face of it, the mechanism is stringent; for instance, to retrench even a single worker an employer must seek the permission of the state labour commissioner if the factory employs hundred or more workers. So one may argue that significant protection for labour, especially in large firms, was enacted. For example, an amendment to the to the ID Act (1947) in 1976 made it compulsory for firms with 300 or more workers to seek the permission of the relevant government to dismiss workers. In 1982, the law was further amended. It took effect in 1984. And here the ceiling for seeking permission to dismiss workers was lowered to 100 workers. So this law made it more or less impossible for large firms to retrench workers.

Further, as economists argue that this labour law was a direct outcome of India's mistrust of the market and a result of its own historical experience. When can a worker be fired, under what conditions can workers be retrenched, when can a firm be closed down? These were all matters that were written down as law, bearing very little room for the principle of free contract by which workers and employers could use their own judgement, bargaining power. This has now become a handicap. A fashion industry with variable demands may want to pay its workers more than the market but retain their freedom to close down its operations at short notice. The workers themselves may agree to such terms, but Indian law makes such a contract difficult to uphold, thereby having a dampening effect on the demand for labour, and thereby holding their wages down. So, reforms are necessary. India will need to take on these institutional matters, amending many of the labour laws.

Actually, the one law that is the source of a lot of controversy is the IDA, 1947. The IDA basically requires firms that employ 50 or more workers pay a compensation, which is specified in the Act, to any worker who is retrenched (fired). In addition, an amendment to the Act, which became effective in 1984, requires firms that employ more than a 100 workers to actually seek for prior permission from the government before retrenching workers. And, as is well known, the government seldom grants such permission, and, in general, places a lot of a priori restrictions on the terms for hiring and firing workers. In 1992 in a case involving a bankrupt private firm, Justice S.K. Hazari of the Calcutta High Court agreed that if another firm took

over the firm, there would be no guarantee that the firm would not, in turn, go bankrupt and cause workers to be laid off. He therefore directed the Government of West Bengal to take over the firm and run it with the existing worker.

However, after the amendment of the law, it is found that this law has harmed Indian workers by keeping demand for labour small. The IDA has been revised the maximum number of times, but these revisions have more often been aimed at making laws more stringent rather than liberal.

2.5.3 Labour Laws and Regulations relating to Wages and Monetary Benefits

The following four pieces of legislation are worth mentioning in the category of the law relating to wages and monetary benefits. These are: the Payment of Wages Act, 1936 (POWA); the Minimum Wages Act, 1948; the Payment of Bonus Act, 1965 (POBA); and the Equal Remuneration Act 1976 (ERA). Some of the salient features of these pieces of legislation are discussed below:

The *Payment of Wages Act, 1936*

The Payment of Wages Act, 1936 (POWA), being a labour-friendly legislation, is one of the earliest labour laws that was enacted in colonial India. Its objective was to ensure that the employer actually pays wages to the worker on time, pays them in current coin, and does not make impermissible deductions from them. The wage has been enhanced to ₹ 18,000 p.m. in 2012.

This is a Central act, the enforcement of which is a state responsibility, except in mines, railways, oilfields, ports and air transport which lie in the central sphere.

The Payment of Wages Act, 1936 ensures timely payment of wages and that no unauthorized deductions are made from the wages of the workers. In exercise of the powers conferred by sub-section (6) of Section 1 of the Act, the Central Government, on the basis of figures of the Consumer Expenditure Survey published by National Sample Survey Office, has enhanced the wage ceiling from ₹ 10,000/- to ₹ 18,000/- per month w.e.f. 11.09.2012.

The Payment of Wages (Amendment) Bill, 2016 has been introduced in the Lok Sabha on 15th December, 2016 to substitute section 6 of the Payment of Wages Act, 1936 so as to enable the employer to pay the wages to the employed person also by

cheque or crediting it to their bank account and also to enable the appropriate Government to specify the industrial or other establishments, by notification in the Official Gazette, which shall pay to every employed person, the wages only by cheque or by crediting in his bank account. As the Bill could not be passed, the Payment of Wages (Amendment) Ordinance, 2016 has been promulgated on 28.12.2016.

The *Minimum Wages Act, 1948 (MWA)*

This is also a Central act, the enforcement of which is a state responsibility, except in mines, railways, oilfields, ports and air transport which lie in the central sphere. This Act specifies minimum wages in 'scheduled' employment (that is, those jobs explicitly identified in a schedule.

This act provides for fixation, review, revision and enforcement of minimum wages in respect of scheduled employment.. The minimum wage system prevents workers from being exploited. This Act does not make any discrimination between male and female workers or different wages for them to protect minimum wages against inflation.

The Supreme Court of India has held that that 'no industry has a right to exist unless it is able to pay its workmen at least a base minimum wage' (Crown Aluminium Works v. Their Workmen, [AIR 1958, S.C. 30]. At least on paper, the minimum wage payment is an important aspect of industrial working in the country. Herein an example of a Sweatshop scandal which occurred in India. An investigation carried out by the Observer Newspaper (2010) revealed that suppliers of three large retail companies— Marks and Spencers, Next and Gap— were consistently paying low wages to workers and employing them under sweatshop conditions. In some cases, factories in India used middlemen to employ workers who were paid as little as 25p an hour, and required to work up to eight hours a day in overtime, while some worked seven days a week. It was reported that those who objected to working overtime has been beaten.

The MWA envisages two methods of wage fixing: the committee method, and the gazette notification method. Any of these two methods can be adopted for fixing and revising the minimum wage. The minimum wages under the Act can be fixed in the form of a time rate or a piece rate (with guaranteed time rate) and an overtime rate. As has been held by the Indian Supreme Court, it is mandatory on the part of

the employers to pay minimum wages; and anyone who is not able to pay minimum wage has no right to carry on his industry.

The shortcomings of this Act are that though this Act is observed by large and medium units, several small units evade the rules.

Another shortcoming is centered around the matter relating to payment of fair wages to workers. Unfortunately the Fair Wages Bill introduced in 1950 is yet to be made an Act. What has been done is the fixation of the National Floor Level Minimum Wage so as to have a uniform structure in 1991.

The Minimum Wages Act, 1948 was enacted to safeguard the interests of the workers mostly in the unorganized sector. Under the provision of the Act, both the Central Government and State Governments are the appropriate governments to fix, revise, review and enforce the payment of minimum wages to workers in respect of scheduled employments under their respective jurisdictions. There are 45 scheduled employments in the Central Sphere and as many as 1709 in the State Sphere. The enforcement of the Minimum Wages Act, 1948 is ensured at two levels. While in the Central Sphere, the enforcement is done through the Inspecting officers of the Chief Labour Commissioner (Central) commonly designated as Central Industrial Relations Machinery (CIRM), the compliance in the State Sphere is ensured through the State Enforcement Machinery.

In order to protect the minimum wages against inflation, the Central Government has introduced Variable Dearness Allowance (VDA) linked to Consumer Price Index. As regards Stats/UT Administrations, 26 of them have made VDA as a component of minimum wages. Both Central and State Governments are revising the minimum wages in respect of these scheduled employments from time to time. In the Central sphere, the rates were last revised w.e.f. 01.10.2016.

In order to have a uniform wage structure and to reduce the disparity in minimum wages across the country, a concept of National Floor Level Minimum Wage (NFLMW) was mooted on the basis of the recommendations of the National Commission on Rural Labour (NCRL) in 1991. NFLMW was revised from time to time. The Central Government has revised the NFLMW from ₹ 137/- to ₹160/- per day with effect from 01.07.2015. It, however, needs to be noted that the National Floor Level Minimum Wage, is a Non-statutory measure.

The *Payment of Bonus Act 1965*

The Payment of Bonus Act, 1965 (POBA), envisages a scheme of sharing the gains of industry between the employer and the employee in a specified way. The Act applies to all factories defined under the Factories Act, 1948, and all establishments wherein twenty or more persons are employed on any day during the accounting year.

The *Equal Remuneration Act, 1976*

The Equal Remuneration Act, 1976 (ERA), applies to all establishments whether belonging to the public or the private sector. It envisages a duty on the part of all employers to pay equal remuneration to men and women for doing the same work or work of similar nature.

2.5.4 Labour Laws and Regulations relating to Social Security

Social security is the protection which society provides for its members against the economic and social distress. The State bears the primary responsibility for developing appropriate systems for providing protection and assistance to its workforce and their families.

Coverage of workers by formal social security and insurance programmes is extremely limited and covers less than 10 per cent of India's labour force.

A. Labour Laws and Regulations relating to Social Security (for the organized sector)

In India Social security is treated as part of labour law. The principal laws enacted in India are the following:

- The Workmen's Compensation Act, 1923 (WC Act).
- The Employees' State Insurance Act. 1948 (ESI Act).
- The Employee' Provident Funds & Miscellaneous Provisions Act, 1952 (EPF & MP Act).
- The Maternity Benefit Act 1961 (M.B. Act).
- The Payment of Gratuity Act, 1972 (P.G. Act).
- Employees' Pension Scheme,1995:

The Workmen's Compensation Act, 1923 (WC Act):

This is one of the earliest labour laws in India. The Act provides for payment of compensation to workmen and their dependants in case of injury and accident (including certain occupational diseases) arising out of and in the course of employment and resulting in disability or death. The minimum rate of compensation for permanent disablement and death has been fixed at ₹ 1,40,000 and ₹ 1,20,000 respectively.

This act specifies compensation that employers need to pay on account of injury by accident at the worksite or because of occupational diseases.

It is obligatory to pay compensation for the employers. The Act to the whole of Indian and to certain categories of railway workers and persons employed in factories, mines, plantations. and mechanically propelled vehicles, construction works and certain other hazardous occupations.

This Act too suffers from poor implementation due to administrative difficulties.

The Employees' State Insurance Act, 1948:

The Employees' State Insurance Act, 1948 (ESIA), is the principal social insurance law in India. It is a 'pioneering measure', applies to all workers in factories. The hallmark of this law is an employee state insurance scheme (ESIS) that is administered by the Employees State Insurance Corporation (ESIC), an autonomous body. This is perhaps the only social security law in India which has an insurance element in it. Now this Act has been extended to power –using factories which employ between 10 to 19 persons, shops, hotels, theatre, restaurants, and cinema.

The ESI Act provides medical care and cash benefits in the event of the death of a worker following injury insured persons and their members of the family receive free and complete medical care through the network of panel clinics, ESI dispensaries and hospitals.

As on 31.3.2014, 1.95 crore insured persons and about 7.58 crore beneficiaries are covered under the scheme.

The Employee's State Insurance (ESI), Act has been extended to all 325 complete districts as well as 93 district headquarters area. Under the scheme, insured persons are entitled to various cash benefits in the event of abstention from work due to sickness, temporary disablement, permanent disablement, dependent benefit,

unemployment allowance, maternity benefit etc. The family members of the insured persons are also entitled to medical benefit. As on 31.03.2017, the number of insured persons covered under ESI scheme is 3.19 crore and total beneficiaries including their family members are 12.40 crore. ESI has a network of 152 hospitals, 1467 dispensaries, 628 branch offices and 62 regional /sub regional offices across the country (Eco. Survey, 2017-18)

Employees' Provident Funds (and Miscellaneous Provisions) Act, 1952:

The fundamental objective of the Act, 1952 is the institution of compulsory contributory provident funds, pension and insurance for employees in factories and other establishments which employ 20 or more persons. This Act extends to entire India, except for Jammu and Kashmir.

Presently the following three schemes are in operation under the Act through the Employees' Provident Fund Organization:

- Employees' Provident Funds Scheme, 1952.
- Employees' Deposit Linked Insurance Scheme, 1976 (where employers are required to contribute towards the Insurance Fund at the rate of 0.5 per cent of pay).
- Employees' Pension Scheme, 1995 (that aims at providing economic sustenance during the old age and survivorship coverage. With the introduction of the Pension Scheme, the erstwhile Family Pension Scheme, 1971 ceased to operate. Under the scheme pension at the rate of 50 per cent pay is payable to the employees on retirement/ superannuation on completion of 33 years' contributory service).

Maternity Benefit Act, 1961 (MBA):

The Maternity Benefit Act, 1961 (MBA), an another piece of social legislation, passed in September, 1961 and received its assent on 12th December, 1961, aims to protect the earnings of women employees in relation to pregnancy and children related issues. This Act regulates women workers' employment in certain establishments for a certain specified period before and after child birth. The benefits under this Act are payable under three situations: childbirth, miscarriage or sickness arising out of pregnancy. Like some of the other social security laws, the MBA also imposes unilateral responsibility on the employer to pay maternity benefit to women employees covered.

This Act has been amended in 2008 and provides for extension of its provisions to shops and establishments employing 10 or more workers. It extends to the whole of India, except the State of Sikkim.

Of late, the Maternity Benefit (Amendment) Act 2017 (“MB Amendment Act**”)** has come into force from April 1, 2017. The MB (Amendment) Act extends certain benefits to adoptive mothers as well and provides that every woman who adopts a child shall be entitled to 12 weeks of maternity leave, from the date of adoption. All establishments covered under the MB Amendment Act would be required to amend their existing maternity benefit policies in accordance with the MB Amendment Act.

The Payment of Gratuity Act, 1972:

Gratuity is a benefit that is payable by the employer to his employee on termination of the employee’s service. It is regulated by the Payment of Gratuity Act, 1972 (PGA). It is a unique kind of protection prevalent in the Indian organized sector. The Act applies to factories, mines, oilfields, plantations, ports, railway companies, shops and other establishments which employ 20 men or more persons.

A close look at India’s record in providing social security shows that only a small fraction of workers (only 8 per cent of India’s labour force, according to the National Commission for Enterprises in the Unorganized sector, NCEUS, in 2004) enjoy protection, while 91 per cent of the workers are engaged in the informal sector. India has yet to have a fully developed social security system on the pattern of the developed world. There is a need to develop an integrated system of social security so as to avoid complication from which the present system suffers.

B. Social Security Laws for the Unorganized Sector

The overwhelming majority in India’s labour force works in the unorganized or informal sector, with low earnings and high social insecurity. Only 8 per cent of India’s labour force enjoy protection and social security. The central facts over the years have not changed altogether. Considering the above pl,hts, various social security arrangements have been made also.

The existing social security arrangements in the unorganized sector can be broadly classified into five groups as follows:

- Central Legislations including Welfare Fund
- Social assistance through welfare funds of Central and State governments
- Social insurance schemes
- State Legislations including Welfare Funds; and
- Public initiatives

Anyway, assistance under all these schemes is too little to benefit the workers of the unorganized sector.

During the post-reform period, the institutional framework for employment relations changed at the local level while remaining unchanged at the national level. At the same time, the informal economy posed serious challenges for the national development model pursued by policy-makers. The government responded by constituting the National Commission on Enterprises in the Unorganised Sector (NCEUS), chaired by Arjun Sengupta. The NCEUS submitted reports on social security, working conditions and challenges of creating employment.

In order to provide social security benefits to the workers in the unorganized sector, the Government, following the recommendations of **NCEUS** report**,** had introduced the *Unorganised Workers Social Security Act, 2008.* The 2008 Act stipulates formulation of suitable welfare schemes for unorganized workers on matters relating to: (i) life and disability cover, (ii) health and maternity benefits, (iii) old age protection and (iv) any other benefit as may be determined by the Central Government through the National Social Security Board.

In order to ensure welfare of workers in the unorganized sector, the Ministry of Labour & Employment has enacted the Unorganized Workers' Social Security Act, 2008. The Act has come into force with effect from16.05.2009. The Central Rules under the Act have been framed.

Different schemes listed under Schedule–I of the Unorganized Workers' Social Security Act, 2008 are as under:

(i) *Indira Gandhi National Old Age Pension Scheme*

Under the scheme, assistance is provided to person of 60 year and above and belonging to family living below poverty line (BPL) as per the criteria prescribed by

Government of India. The scheme is run by Ministry of Rural Development (MORD). A Central Assistance of ₹. 200/- per month is provided to person in the age group of 60-79 years and ₹. 500/- per month to persons of 80 years and above. Identification of beneficiaries, sanction and disbursement of pension is done by State/ UT Government. The Scheme is implemented by Rural Development Department and in a few states by Women and Child Development Departments

(ii) *National Family Benefit Scheme*

Under this Scheme a BPL household is entitled to compensate amount of money on the death of primary bread winner aged between 18 and 59 years. This Scheme is run by Ministry of Rural Development (MoRD).

(iii) *Janani Suraksha Yojana*

It is a Centrally Sponsored scheme with the objective of reducing maternal and infant mortality by prompting institutional delivery among pregnant women. This scheme is run by Ministry of Health and Family Welfare. The Scheme focuses on poor pregnant woman with special dispensation for states that have low institutional delivery rates, namely, the states of Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Assam, Rajasthan, Orissa and J&K. While these States have been named low performing States (LPS), the remaining states have been named high performing States (HPS). The Scheme also provides performance based incentives to women health volunteers known as ASHA (Accredited Social Health Activist) for promoting institutional delivery among pregnant Women.

(iv) *Aam Admi Bima Yojana*:

The main objective of this scheme is to provide life insurance cover to the economically backward sections of the society. AABY extends life and disability covers to Persons between the age of 18 years to 59 years living below and marginally above the poverty line under 47 identified vocational/occupational group. The earlier scheme of Janshree Bima Yojana, which provided life insurance protection to the rural and urban poor persons below poverty line and marginally above the poverty line, as mentioned in the Schedule I of the UWSS Act 2008 has now been merged into Aam Admi Bima Yojana

(v) *Rashtriya Swasthaya Bima Yojana* (RSBY):

RSBY is implemented by Ministry of Health and Family Welfare, Government of India to provide health insurance coverage to Below Poverty Line (BPL) families. Under the scheme, the BPL families (a unit of five) in the unorganized sector are provided *smart card based cashless health insurance cover of ₹30,000/- per annum.* The scheme became operational from 01.04.2008. During the course of implementation, apart from BPL families, RSBY coverage has been extended to 11 occupational groups of Unorganised Workers viz. Building & Other Construction Workers, Licensed Railway Porters, Street Vendors, MGNREGA workers (who have worked for more than fifteen days during preceding financial year), Beedi workers, Domestic workers, Sanitation Workers, Mine Workers, Rickshaw pullers, Rag pickers and Auto/Taxi drivers. It is the endeavour of the Government to extend Rashtriya Swasthya Bima Yojana (RSBY) to all Unorganised Workers in a phased manner.

(i) The *National Food Security Act, 2013*

Enacted in 2013, this act obliges the government to provide food grains at subsidized prices to approximately two-thirds of the Indian population. Under this Act, households have the right to purchase 5 kilograms of cereals per month per eligible person at subsidized prices.

Recently, Central Government has also launched following three schemes for all citizen including rural labour to provide them comprehensive social security model.

i. **Atal Pension Yojna (APY) :** Under the APY, subscribers would receive a fixed minimum pension of ₹ 1000 per month, ₹ 2000 per month, ₹ 3000 per month, ₹ 4000 per month, ₹ 5000 per month, at the age of 60 years, depending on their contributions, which itself would vary on the age of joining the APY. The Central Government would also co-contribute 50 percent of the total contribution or ₹ 1000 per annum, whichever is lower, to each eligible subscriber account, for a period of 5 years, that is, from 2015-16 to 2019-20, to those who join the NPS before 31st December, 2015 and who are not members of any statutory social security scheme and who are not Income Tax payers. The pension would also be available to the spouse on the death of the subscriber and thereafter, the pension corpus

would be returned to the nominee. The minimum age of joining APY is 18 years and maximum age is 40 years. The benefit of fixed minimum pension would be guaranteed by the Government.

ii. **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) :** Under PMJJBY, annual life insurance of ₹ 2 lakh would be available on the payment of premium of ₹ 330 per annum by the subscribers. The PMJJBY will be made available to people in the age group of 18 to 50 years having a bank account from where the premium would be collected through the facility of "autodebit".

iii. **Pradhan Mantri Suraksha Bima Yojana (PMSBY) :** Under PMSBY, the risk coverage will be ₹ 2 lakh for accidental death and full disability and ₹ 1 lakh for partial disability. The Scheme will be available to people in the age group 18 to 70 years with a bank account, from where the premium would be collected through the facility of "auto-debit".

vi. **Janashree Bima Yojna :** Incepted on August 10, 2000, Janashree Bima Yojana (JBY) is a government-sponsored socially oriented insurance scheme. Devised by the Central Government and **Life Insurance Corporation** (LIC) together, this scheme offers life insurance protection to rural and urban people below and marginally above poverty line. Currently there are 45 occupational groups covered under this plan.

2.6 Labour Reform Measures Recently Initiated

Several labour reform measures including legislative ones, are being implemented for creation of employment opportunities and for providing sustainable livelihoods for the population who are largely engaged in the informal economy.

Indian labour legislation is extremely complex, with a plethora of overlapping laws. This has led to accusations that it constrains employers, discourage investment, has created an excessive regulatory bureaucracy and works against the efficient operation of labour markets. Yet in practice India is a first growing economy with many highly competitive firms across a wide range of sectors. There are two reasons for this seemingly contradiction. First, the enforcement of the law is at best seen uneven; in all contexts there is a considerable difference between the letter of the law

and the actual firm-level practice. Second, there is the issue of complementarity: firms devise ways of compensating for any inefficiencies through building on the specific strengths of the system.

In a recent survey, medium-sized formal sector manufacturing firms reported labour regulations to be a significant barrier to growth, and specifically "dismissal norms under the Industrial Disputes Act" and "the cumbersome nature of compliance with labour regulations in general." Numerous regulations also encourage rent-seeking behaviour.

The multiplicity of labour laws and difficulty in complying with them has always been cited as an impediment to industrial development in India. Economic Survey, 2016 -17 articulates that at present, there are 39 Central labour laws.

In a major initiative for ensuring compliance and promoting ease of doing business, the government has initiated a number of labour reform measures Thus amendments have been proposed to labour laws to align them with the demands of a changing labour market. Individually, states like Rajasthan have also introduced major reforms in three labour legislations: the Industrial Disputes Act, Factories Act, and Contract Labour Act.

Some states (including Maharashtra, Madhya Pradesh and Rajasthan) have taken the lead in reforming land and labour market regulations. The Maharashtra government amended the *Contract Labour Act* (Sections 1 and 10) in 2005 to deem certain ancillary activities. The Rajasthan government amended the *Industrial Disputes Act 1947* to weaken the requirement for prior government permission before redundancies and closure of establishments from the threshold of enterprises employing 100 or more workers to those employing 300 or more workers, but it is still unclear whether others will follow up.

The following are the Labour Reform measures recently initiated by Government:

(1) The Apprentice Act 1961 was amended on 18.12.2014 to make it more responsive to industry and youth. The Apprentice Protsahan Yojana was also launched to support MSMEs in the manufacturing sector in engaging apprentices. Government is also working affirmatively to bring a single uniform law for the MSME sector to ensure operational efficiency and improve productivity while ensuring job creation on a large scale.

(2) A unified labour portal scheme called Shram Suvidha Portal has been launched for timely redressal of grievances and for creating a conducive environment for industrial development. Its main features are: (i) Unique Labour Identification Number (LIN) allotted to around 0.7 million units facilitating online registration; (ii) filing of self certified, simplified single online return; (iii) transparent labour inspection scheme via computerized system as per risk-based criteria and uploading of inspection reports within 72 hours by labour inspectors.

(3) **Under Employees' State Insurance Corporation (ESIC) Project Panchdeep:** Digitization of internal and external processes to ensure efficiency in operations, especially services to employers and insured persons. The portal enables employers to file monthly contributions, generate temporary identity cards and create monthly contribution challans online, issue of pehchan card for insured persons for fast and convenient delivery of services. Through the IP Portal, insured persons can check contributions paid/payable by employers, family details, entitlement to various benefits, and status of claims. Integration of its services will promote ease of business and curb transaction costs.

(4) **Under Employees Provident Fund (EPF):** Digitization of complete database of 42.3 million EPF subscribers and allotment of universal account number (UAN) to each member, which facilitates portability of member accounts UAN is being seeded with bank account, Aadhar Card and other KYC details to promote financial inclusion.

Direct access to EPF accounts will enable members to access and consolidate previous accounts. Online pensioners can view their account and disbursement details online. The statutory wage ceiling under the Employees Provident Fund and Miscellaneous Provisions (EPF&MP) Act was enhanced to ₹ 15000 per month from 01.09.2014. A minimum pension of ₹ 1000 has been introduced for pensioners under the Employees' Pension Scheme 1995 w.e.f 01.09.2014.

(5) A **National Council for Vocational Training-Management Information System (NCVT-MIS)** portal has been developed for streamlining the functioning of Industrial Training Institutes (ITI), Apprenticeship Scheme, and assessment/certification of all NCVT training courses.

(6) **The National Career Service(NCS)** is being implemented as a mission mode project to transform the National Employment Service and provide various job-related services such as online registration of job seekers and job vacancies, career counseling, vocational guidance, and information on skills development courses, internships, and apprenticeship.

2.7 Labour Laws : What Must be Done?

Nearly all labour laws in India are more than four decades old. Now the scenario has changed due to globalization and labour laws must be changed in tune with this. So ideally, India needs to reform the labour laws wholesale. But labour legislation is one of the toughest to manage politically. So reform may well have to be focused first on the most damaging laws on the book.

The law in the most urgent need of reform is the 1947 Industrial Dispute Act. The law is a hindrance to the employers for employment generation. It is true that the *Industrial Dispute Act* does create a psychological block against the creation of new enterprises. Besides, it is not desirable that this IDA Act would allow every single industrial dispute to go to the labour courts and tribunals. This practice should be replaced.

Among other labour laws, the 1948 Factories Act should be revisited to see if it contains provisions that are too onerous for firms with ten or even twenty workers.

The 1926 Trade Unions Act also needs to be modified. Even its 2001 amendment is not enough. It still makes growth of trade unions in large numbers and makes collective bargaining problematic. Further reform of the Act would place emphasis that would limit the number of trade unions to a manageable level.

In general, globalization has intensified competition. Employers argue that the employment relations actors need to shift from conventional ‘distributive bargaining’ to ‘productivity bargaining’ in order to remain competitive in the global context. This should be taken into account when further reforms in labour laws will act.

2.8 Conclusion

In what follows there have been enormous evolutions in Indian labour policies since Independence. Various labour laws and regulations enshrined under labour policies have been enacted in order to raise employment, increase production and productivity, maintain a balance between labourer and employers and broadly to establish legal, economic and social norms and, above all, to bring about welfare of the working class and the country's economic stability and progress. Emphasis was placed on full and effective implementation of social security measures both in the organized sector as well as for the unorganized sectors, apart from implementation of labour laws and regulations relating to working conditions, laws relating to employee relations, laws relating to wages and monetary benefits. In view of the labour regulations to be a significant barrier to growth, and specifically "dismissal norms under the Industrial Disputes Act" and "the cumbersome nature of compliance" with labour regulations in general, the present government has initiated a number of labour reform measures. Despite earnest efforts by the government, implementation of labour laws and regulations is not proper and employers escape with only small penalties. Besides, the quantum of benefits flowing in favour of the organized sector is inadequate.

Thus, there is a greater need to widen the coverage and provide adequate social and economic security to the labour force both in the organized and unorganized sectors.

2.9 Key Terms Simplified

IDA Act, 1947: The Industrial Disputes Act, 1947 which extends to the whole of India came into Operation on 1st April 1947. It was enacted with the purpose of providing permanent machinery for the settlement of industrial dispute which had become common features due to the industrial unrest in the wake of post-war problems arising out of constant strife between the employers and employees.

The Employees' State Insurance Act. 1948 (ESI Act): This is a pioneering measure in the field of social insurance in our country. The Adarkar Plan and various other suggestions emerged in the form of Workmen's State Insurance Bill, 1946. The Bill was further referred to a Select Committee on November,12, 1947. It changed the name of the Bill to 'The Employees' State Insurance Bill'. The Employees' State Insurance Act came into force from 19th April.1948. The Scheme under the Act aims at providing for certain cash benefits to employees in case of sickness, maternity, employment injury and medical facilities in kind. The Act was amended in 1951,1966 and 1975. The latest amendment to the Act was made in 1984 and it came into force with effects from 27th January, 1985.

Unorganized Sector Workers Security Act, 2008: The Act stipulates formulation of suitable welfare schemes for unorganised workers on matters relating to: (i) life and disabilitycover, (ii) health and maternity benefits,

(iii) old age protection and (iv) any other benefit as may be determined by the Central Government through the National Social Security Board.

The National Food Security Act,2013: Enacted in 2013, this act obliges the government to provide food grains at subsidized prices to approximately two-thirds of the Indian population. Under this Act, households have the right to purchase 5 kilograms of cereals per month per eligible person at subsidized prices. Recently, Central Government has also launched following three schemes for all citizen including rural labour to provide them comprehensive social security model:Atal Pension Yojna (APY), Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana.

2.10 Questions with Answer Hints

Questions Carrying 2.5 marks

1) **What is labour policy? Mention the objectives of labour policy?**

   [Ans: Laws, rules, regulations and measures applicable to labour employed in organized and unorganized industries. The objective is to ensure an environment which is conducive to labour-management cooperation.]

2) **Discuss the several landmarks in the field of labour policy prior to independence.**

[Ans: Laws, rules, regulations and measures applicable to labour employed in organized and unorganized industries. The objective is to ensure an environment which is conducive to labour-management cooperation.]

3) **What is the relationship of labour policy and the Constitution?**

[Ans: The labour policy derives its philosophy and content from the Directive Principles of State Policy as laid down in the Constitution.]

4) **What is social security? What is the aim of social security measures?**

[Ans: Social security is defined by the ILO as "the security that society furnishes, through appropriate organisation against certain risks to which its members are exposed". These risks are essentially contingencies. The aim of all social security measures is three-fold: Compensation (that goes to income security), Restoration (that implies cure of the sick and invalid, re-employment and rehabilitation), and Prevention (that is designed to avoid the loss of productive capacity due to sickness, unemployment or invalidity)]

Questions Carrying 5 marks

1) **Mention two key pieces of legislation that deal with the provision of social security?**

[Ans Hints: They are the Employees' State Insurance Act, 1948 and Employees' Provident Funds (and Miscellaneous Provisions) Act, 1952.

2) **Mention the most salient pieces of Indian labour legislation since independence**

[Ans Hints: a) The Labour laws and regulations relating to working conditions; b) The Labour laws regulating employee relations; c) Labour Laws and Regulations relating to Wages and Monetary Benefits; d) Labour Laws and Regulations relating to Social Security (for the organized as well as or Unorganized sector)].

3) **"India needs to reform the labour laws wholesale"— Do you agree? Give reasons for your answer.**

   [See Section 2.7]

Questions Carrying 10 marks

1) **Discuss Labour Laws and Regulations Relating to Working Conditions.**

   [Ans : See Section 2.5.1]

2) **Analyse the Labour Laws regulating employee relations.**

   [Ans : See Section 2.5.2]

3) **Give a brief review on Labour laws and regulations relating to wages and monetarybenefits.**

   [Ans : See Section 2.5.3]

4) **Critically discuss Labour Laws and Regulations relating to Social Security for the organized and unororganized sector in India?**

   [Ans : See Section 2.5.4 (A & B)]

5) **What is IDA? What are the essential features of ID Act?**

   [Ans : Hints: The IDA of 1947 is one of India's labour laws. The amended version of this law made it more or less impossible for large firms to retrench workers.]

2.11 References

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Unit 3 ☐ POVERTY AND INEQUALITY

Structure

3.1 Objectives

3.2 Introduction

3.3 Poverty line

3.4 Poverty Measures in India

3.5 Government Policy to Combat Poverty

3.6 Economic Reforms and Poverty

3.7 Concept of Inequality

3.8 Inequality Measures

3.9 Nature of Inequality in India

3.10 Reasons for the rise in Inequality in India and Government Measures

3.11 Role of inclusive growth

3.12 Conclusion

3.13 Key Terms simplified

3.14 Questions with Answer Hints

Questions Carrying 2.5 marks

Questions Carrying 5 marks

Questions Carrying 10 marks

3.15 References

3.1 Objectives

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

- understand what poverty is, why does poverty arise, how does it differ from inequality, the difference between absolute poverty vs. relative poverty, poverty line and measurement of poverty;

- analyze the poverty measures as taken by scholars and different committees and commissions;
- learn government policy to combat poverty as well as impact of economic reforms on poverty;
- understand, in addition the meaning of inequality, inequality measures, nature, dimensions and trends in inequality in India;
- state the role of inclusive growth in India
- learn public policy to reduce inequality;
- to have gaps in public policy prescriptions and also the public policy, warranting priority attention, to be taken, to fill the gaps.

3.2 Introduction

Every day hundreds of millions of people experience extreme form of deprivation that inflict suffering and reduce or terminate their future prospects of having a good live and being productive. They experience extremely limited access to the most basic needs— food, portable water and sanitation, clothing and shelter. So poverty is the want of the necessities of life. The poor are those who lack these necessities and their situation contrasts with the non-poor who, at the very least, can meet their basic needs. Here we will think of poverty as a feature of individual country like India.

On the other hand, like poverty, inequality is also multidimensional affecting all aspects of life, not income alone. A vital point to make at the outset is that like poverty, inequality is also global as well as national. There are profound contrasts in income, wealth, health and social participation between countries as well as within them. But here we will, in particular, focus on inequality as a feature of individual country like India.

3.3 Poverty Line

According to the World Bank (2000), "poverty is pronounced deprivation in wellbeing." This of course begs the questions of what is meant by *well-being* and of

what is the reference point against which to measure deprivation. Perhaps the broadest approach to well-being is the one articulated by Amartya Sen (1987), who argues that well-being comes from a capability to function in society. Thus, poverty arises when people lack key capabilities, and so have inadequate income or education, or poor health, or insecurity, or low self-confidence, or a sense of powerlessness, or the absence of rights such as freedom of speech. Viewed in this way, poverty is a multidimensional phenomenon and less amenable to simple solutions. For instance, while higher average incomes will certainly help reduce poverty, these may need to be accompanied by measures to empower the poor, or insure them against risks, or to address specific weaknesses such as inadequate availability of schools or a corrupt health service.

Absolute Poverty vs Relative poverty

Poverty is a situation facing people whose material needs are least satisfied. Poverty can be defined by some absolute measure (earning below some specified minimum level) or in relative terms (the number of poorest 10 per cent of households for example).

Absolute poverty is measured against some benchmark such as the cost of getting enough food to eat or being able to write one's own name for literacy. Relative poverty is measured against social standards.

For **absolute poverty** we can specify a poverty line, with those below the line being regarded as in absolute poverty, and those above the line not in absolute poverty. The percentage of any given population below the poverty line is the head count index of absolute poverty. Other definitions of absolute poverty are based on a consensual level of income which is required to maintain human existence. Examples of such absolute definition of poverty include the 'dollar-a-day' (now US$1.25 per day) or 'two dollars-a-day' criteria. Concepts of absolute poverty have been used vary widely in international comparisons of poverty. Because the real value of the poverty line remains constant over time, it is possible to make **Relative poverty** is defined with respect to what might be defined as a comparator group, and is therefore, closely related to concepts of relative deprivation Because the relative poverty line rises as income increases, the implication is that the relative poverty can

be reduced, but only if the income distribution becomes more equal. If the income distribution in the country becomes more unequal, then relative poverty is likely to increase. In this sense, although absolute poverty is likely to be reduced over time as incomes rise, relative poverty is always likely to be with us unless income inequality falls significantly.

According to Amartya Sen, poverty is a matter of deprivation, which may be absolute or relative. He stressed on capability to draw the distinction between absolute poverty and relative poverty. He illustrates the capability of a person by the example of a bicycle.: it is, of course, a commodity. It has several characteristics. viz., transportation. Having a bike gives a person the ability to move about in a certain way that he may not be able without the bike. So, the transportation characteristics of the bike gives the person the capability of moving in a certain way. That capability may give the person utility.

Sen argues that, in the chain—

Commodities → Characteristics → Capability → Utility

Since capability comes closest to the notion of standard of living, therefore poverty is an absolute notion in the space of capabilities but very often it assumes a relative form in the space of commodities or characteristics.

Poverty Measures

Poverty: Aggregate poverty measures grapple with three dimensions of the problem of poverty: *how many* people are poor (the head count ratio); by *how much* they fall below poverty line (poverty-gap measure); and for *how long* are they poor – that is, is poverty transient or persistent? There are many measures of poverty, some important measures are given below.

a. The Poverty Head-count Ratio (HCR)

HCR shows the percentage of people below the poverty line. The appropriate choice of poverty line is a matter of judgment, and will therefore vary from country to country.

Thus, $H = \frac{q}{n}$

where q is the number of people below the poverty line and n is the total population.

b. The Poverty-gap measure:

The Poverty Gap is the difference between the poor's income or expenditure and the poverty line. The Poverty Gap Index (PGI) is the ratio of the poverty gap to the poverty line:

$$PGI = \frac{1}{n}\sum_{i=1}^{q}\frac{(z - y_i)}{z}$$

Where, z = poverty line, y_i = income of the ith individual, q is the number of people below the poverty line and n is the total population

c. Squared Poverty Gap:

To construct a measure of poverty that takes into account inequality among the poor, some researchers use the squared poverty gap index. This is simply a weighted sum of poverty gaps. Formally,

$$SPGI = \frac{1}{n}\sum_{i=1}^{q}\left(\frac{z - y_i}{z}\right)^2$$

Where, z = poverty line, y_i = income of the ith individual, q is the number of people below the poverty line and n is the total population

d. Sen's Measure:

Amartya Sen dismissed the conventional method of poverty measurement like Head –count ratio and Income gap ratio because both the techniques ignored the distribution of income, and welfare. Noble Laureate Amartya Sen's measure of evaluating poverty and assessing inequality or S measure of poverty combines three distinctive characteristics of the inter-personal profile of poverty:

1. The head-count ratio H
2. The income gap ratio I, as a proportion of the poverty line, and
3. The Gini-co-efficient G of income distribution among the poor derived on the basis of a Lorenz curve.

For fairly large number of Poor people q, the Sen (S) measure of poverty amounts to

S = H[I + (1-I)G]

Where the head-count ration is H, income gap ratio I, as a proportion of the poverty line, and G is the Gini-coefficient of income distribution among the poor derived on the basis of a Lorenz curve.

S should vary between 0 and 1. When every individual earns an income above poverty level, S = 0 as the number of people with incomes at or below poverty line = 0. Similarly, S = 1, when nobody earns anything. Thus, this measure gives a measure of distribution of poverty among those below the poverty line.

Gini coefficient is a relative measure of inequality. Unlike Gini coefficient, S coefficient has two distinguishing features: (a) it covers a part of distribution, and (b) it is a measure of absolute poverty.

Multidimensional Poverty Index

Human Development Report 2010 introduced the concept of Multidimensional Poverty Index (MPI) to replace HPI (Human Poverty Index). The MPI is the product of the multidimensional poverty headcount (the share of people who are multidimensionally poor) and the average number of deprivations each multidimensionally poor household experiences (the intensity of their poverty). It has three dimensions mirroring the HDI – health, education and living standards.

According to UNDP, in 2005, India's Multidimensional Poverty Index was 0.283 and percentage of people who are MPI poor is 53%.

Poverty Line and its Concept

Poverty line is a line drawn on the basis of the particular level of income, say, the cost of bare subsistence below which the really poor cannot meet the minimum levels of basic human requirements. In other words, a poverty line, in which a cut-off is expressed, is essentially a pragmatic device to separate those in poverty from the rest of the population.

The Concept of Poverty Line in India

The existing all-India rural and urban poverty lines, anchored in the per capita calorie norms of 2400 (rural) and 2,100 (urban) were originally defined in terms of per capita total consumer expenditure (PCTE) at 1973-74 market prices and adjusted over time across States for changes in prices. The all-India poverty line so defined in 1973-74 was r 49.63 for rural areas and r 56.64 for urban areas. The all-India

poverty line for 2004-05 adjusted for prices was r 356.30 for rural areas and r 538.60 for urban areas. For the year 2009-10, the Planning Commission has defined the poverty line as r 22.40 per capita per day in rural areas and r 28.60 per capita per day in urban areas. This translates to r 672.80 per capita per month in rural areas and r 859.60 per capita per month in urban areas.

3.4 Poverty Measures in India

A major significant development for India's economic policy was Indira Gandhi's extension of Nehruvian socialism to poverty eradication in terms of affirmative actions for empowering the poor. For the first time, in the middle of 1960s, attempts were made to estimate poverty in terms of expenditures on a basket of consumer goods, thus arriving at some minimum requirements for a basic standard of living. And the Indian poor have been studied in more repetitive detail than the poor of any other developing country even though their number and situation may not have changed very much in recent years. As Sen put it: "The Indian poor may not be accustomed to receiving much help, but he is beginning to get used to being counted".

Dandekar and Rath's Measure: Dandekar and Rath (1971) used their poverty line the amount of money that was necessary to purchase a low cost diet that provided 2250 calories per day. They found that 40% of the rural and 50% of the urban population lived below the poverty line in 1960-61. They also found wide regional variations in the extent of poverty.

Pranab Bardhan's Measure: Pranab Bardhan (1974), used an income poverty line for the rural areas that was the same as that of Dandekar and Rath, but a slightly higher one for urban areas, found that in 1968-69, about 54% of the rural population and 41% of the urban population were in poverty, thus reversing the rural/urban position.

B.S. Minhas' Estimate: Like Dandekar and Rath, Minhas also defines poverty line in terms of minimum amount of per capita consumpyion expenditure.

P. D Ojha's Estimate: Ojha defined poverty in terms of minimum needs. He has estimated the number of persons below the poverty line on the basis of average calorie intake per capita per day.

De Costa's Estimate: De Costa, using NSS data for 1963-64 has estimated three rings of poverty in India.

Estimates by the Planning Commission

The Planning Commission for India figures for poverty for 1977-8 found the incidence of poverty to be higher in rural areas: 48 per cent of the rural population and 41 per cent of the urban population.

Estimates by National Sample Survey (NSS) of India: Referring to the whole country, the NSSO of India suggests that about 46 per cent of the total population was in poverty in 1973-4.The study have used a calorie intake of about 2200 per person.

The ILO studies of poverty: The ILO studies of poverty in various states of India concluded that starvation poverty either increased or remained constant, despite yearly fluctuations during the decade 1961-71.

Montek Ahluwalia's Study:

Taking a longer period, 1956-74, and using his poverty line the amount of income necessary to purchase a low cost diet providing 2250 calories per person per day, Ahluwalia reached a very similar conclusion and found no consistent upward or downward trend in the extent of poverty in rural India. The percentage in poverty declines initially, from over 50% in the mid-fifties to around 40% in 1960-61, rising sharply through the mid-sixties, reaching a peak in 1967-78, and then declines again. This finding was confirmed by Bhanoji Rao, who concentrated on starvation poverty in rural India for the same period.

The Seventh Finance Commission (1978) on Poverty: The Seventh Finance Commission developed a concept of an " augmented poverty line" for the calculation of the percentage of persons below the poverty line in each state, as also for the calculation of poverty percentage. It made an attempt to have a more inclusive concept of poverty line. The Seventh Finance Commission estimates shows that in 1970-71 the percentage of population below the augmented poverty line was the highest in West Bengal (70.84 %) followed by Orissa (69.18 %), Bihar (64.78 %) and so on. And the largest number of poor people live in UP followed by Bihar, Orrissa and Tamil Nadu. In what follows is the fact that over the 1960s and the early 1970s there was little or no change in the proportion of the Indian population in absolute

poverty and the main beneficiaries have been the better-off groups in the Indian society since this was a period of the steady industrial and agricultural growth in this period. In fact, unregulated capitalist economic growth does not benefit the poor.

Arjun Sengupta Committee estimate: Defining poverty line as ₹ 20 per person per day, Arjun Sengupta Committee estimated that about 77 per cent of population in India is below poverty line.

World Bank Estimate: According to World Bank, definition of the poverty line is at $1.25 a day in PPP terms). 41.64 per cent of population of India was below poverty line in 2005.

Besides the above mentioned estimates, there are many other estimates of poverty which cover the 1990s and the new millinium.. They are: Martin Ravallion and Gaurav Datt's study (1996), Estimates of Tendulkar (1998), Datt and Ravillion (1998), Dubey and Gangopadhyay (1998), Estimates by the Planning Commission (2012), Tendulkar (2012), Rangarajan Committee (2014).

Poverty Incidence: From the Early 1950s to 2011-12 : An Introspective View

Martin Ravallion and Gaurav Datt's study (1996) shows that from the early 1950s and the mid-1970s, poverty rates fluctuated. Then from 1973-74 to the mid-1980s, poverty incidence declined from 54% in 1973-74 to 38% to 1986-87.Thus India has reduced poverty substantially since the mid-1970s, as growth rose and human development indicators improved.

India has reduced the percentage of population living in poverty since the 1970s, but the progress has been uneven over time and across states and the number of poor has continued to rise. Poverty reduction slowed in the 1980s. Poverty incidence dropped sharply in 1990. In 1991-92, a transitory worsening o,poverty incidence occurred with the 1991 BoP crisis and decline in growth and stabilization measure.

Poverty Incidence declined in the 1990s as shown by various Studies

Studies made by Tendulkar (1998), Datt and Ravillion (1998), Dubey and Gangopadhyay (1998) show that during the early 1990s the increased poverty incidence was associated with factor like poor harvests, limited agricultural imports and high food prices as well as statistical questions related to the small samples in those years and the price indices used to deflate the expenditure data. By 1993-94,

the incidence of poverty had fallen to 35% — well below the 53% of the early 1970s, slightly below the 38% achieved in 1987-88.

India reduced the depth and severity of poverty even faster than the head-count ratio. Thus the decline of poverty was the process through which poverty was being reduced improving the consumption of those far below the poverty line. Despite these successes, over 310 million people were living in poverty in 1993-94.

The Planning Commission (PC) has estimated the incidence of poverty at the national and state level. According to PC the proportion of poor in both the rural and urban areas declined sharply between 1973-74 to 1999-2000. In absolute terms, the number of poor also declined to 260 million in 1999-2000. This indicates that India has reduced poverty substantially but poverty rates has declined marginally.

Poverty Incidence declined in the New Millennium:

From the Poverty Estimates Based on **66th Round of NSSO** by Planning Commission what we can say runs thus**:** On March 19, 2012, the Planning Commission released the estimates of poverty for the year 2009-10 as per the recommendations of the Tendulkar Committee using **NSS 66th rouund** (2009-10) data from the Household Consumer Expenditure Survey. The poverty line was defined as ₹ 22.40 per capita per day in rural areas and ₹ 28.60 per capita per day in urban areas (this translates to ₹ 672.80 per capita per month in rural areas and ₹ 859.60 per capita per month in urban areas). On this basis, 29.8 per cent of the population was below the poverty line in 2009-10 (33.8 per cent rural areas and 20.9 per cent in urban areas) (**Table 3.1).** Even in absolute terms, the number of poor people has fallen by 52.4 million during this period. Of this, 48.1 million are rural poor and 4.3 million are urban poor. Thus poverty has declined on an average by 1.5 percentage points per year between 2004-05 and 2009-10.

Table 3.1 : Number and Percentage of Poor*

Year	Number of Poor (million)			Poverty ratio (%)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	328.6	74.5	403.7	50.1	31.8	45.3
2004-05	326.3	80.8	407.1	41.8	25.7	37.2
2009-10	278.2	76.5	354.7	33.8	20.9	29.8

*Source: Planning Commission, *Estimated by Tendulkar Committee*

Poverty Estimates Based on 68th Round of NSSO by Planning Commission

The latest estimates of poverty are available for the year 2011-12. These estimates have been made following Tendulkar Committee methodology using household consumption expenditure survey data collected by the NSSO in its **sixty-eighth round** (2011-12). Over a span of seven

Table 3.2 : Number and Percentage of Poor

Year	Poverty line (in r)		Number of poor (million)			Poverty ratio (per cent)		
	Rural	Urban	Rural	Urban	Total	Rural	Urban	Total
2004-05	446.68	578.80	326.3	80.8	407.1	41.8	25.7	37.2
2011-12	816.00	1000.00	216.5	52.8	269.3	25.7	13.7	21.9

Source: Neeti Aayog, Estimated by Tendulkar Method.

years the incidence of poverty declined from 37.2 per cent in 2004-05 to 21.9 per cent in 2011-12 for the country as a whole, with a sharper decline in the number of rural poor (**Table 3.6**).

The Rangarajan Committee's Estimation: The Rangarajan Committee estimates that 30.9 per cent of rural population and 26.4 per cent of the urban population were below the poverty line in 2011-12. This meant that poverty declined by 8.7 per cent in both rural and urban areas between 2009-10 and 2011-12 compared to 8.1 per cent and 7.2 per cent reduction by the Tendulkar methodology**.** So both the methods reassure that poverty fell during the last decade because it meant that the poor did benefit from the high economic growth of the last decade.

3.5 Government Policy to Combat Poverty

The Earlier Phase of Government efforts to combat poverty in India:

With the Fifth Five Year Plan, poverty alleviation came to be accepted as one of the principal objectives of economic planning in India. During that time, a number of special programmes were taken to eradicate poverty for the rural poor. The important programmes were

(i) Small Farmers' Development Agency (SFDA)

(ii) Marginal Farmers' and Agricultural Labourers' Development Agency (MFAL)

(iii) Drought Prone Areas Programme (DPAP)

(iv) Crash Scheme for Rural Employment (CSRE)

(v) Food for Work Programme (FWP)

None of these programmes comprehensively covered the whole country. Hence, there was need for undertaking programmes which could not only could cover the whole country but also make a direct attack on rural poverty.

The Latter Phase of Government efforts to combat poverty in India:

1. Rural Housing—Indira Awaas Yojana (IAY)

The Indira Awaas Yojana (IAY), operationalized from 1999-2000, is the major scheme for construction of houses for the poor, free of cost. The Ministry of Rural Development (MoRD) provides equity support to the Housing and Urban Development Corporation (HUDCO) for this purpose.

2. Pradhan Mantri Gramodaya Yojana (PMGY)

PMGY launched in 2000-1 envisages allocation of Additional Central Assistance (ACA) to the states and UTs 9 Union Territories) for selected basic services such as primary health, primary education, rural shelter, rural drinking water, nutrition, and rural electrification.

3. Pradhan Mantri Gram Sadak Yojana (PMGSY)

The PMSGY, launched in December 2000 as a 100 per cent centrally sponsored scheme, aims at providing rural connectivity to unconnected habitations with population of 500 persons or more in the rural areas by the end of the Tenth Plan period. Augmenting and modernizing rural roads has been included as an item of the NCMP.

4. Drought Prone Areas Programme (DPAP), Desert Development Programme (DDP), and Integrated Westelands Development Programme (IWDP)

DPAP, DDP, and IWDP are being implemented for the development of wastelands/ degraded lands. During 2004-5 allocation of r 300 crore, r 215 crore, and r 368 crore were provided for DPAP, DDP, and IWDP, respectively

5. Antyodaya Anna Yojana (AAY)

AAY launched in December 2000 provides foodgrains at a highly subsidized rate of ₹ 2.00 per kg for wheat and ₹ 3.00 per kg for rice to the poor families under the Targeted Public Distribution System (TPDS). The scale of issue, which was initially 25 kg per family per month, was increased to 35 kg per family per month for 1 April 2002.

7. Swarnjayanti Gram Swarozgar Yojana (SGSY)

SGSY is a self-employment programme implemented **since April 1999** aims at lifting the assisted rural poor families (swarozgaris) above the poverty line by providing them income-generating assets through a mix of bank credit and government subsidy. The scheme is implemented with active involvement of PRIs. The SGSY now restructured as the NRLM has been renamed Aajeevika and implemented in mission mode across the country since 2011. The main features of Aajeevika are: a) one woman member from each identified rural poor household to be brought under the SHG network, b) ensuring 50 per cent of the beneficiaries from SC/STs, 15 per cent from minorities, and 3 per cent persons with disability while keeping in view the ultimate target of 100 per cent coverage of BPL families, c) training for capacity building and skill development, d) ensuring revolving fund and capital subsidy, e) financial inclusion, f) provision of interest subsidy, g) backward and forward linkages, and h) promoting innovations.

8. Swarna Jayanti Shahari Rozgar Yojana (SJSRY):

The Swarna Jayanti Shahari Rozgar Yojana (SJSRY) was launched by the Government of India on 1 December 1997 to provide gainful employment to the urban unemployed and underemployed by encouraging the setting up of self-employment ventures or provision of wage employment. This scheme subsumed the earlier three urban poverty alleviation programmes and was also revamped with effect from April 2009 to include the Urban Self Employment Programme (USEP), Urban Women Self-help Programme (UWSP), Skill Training for Employment Promotion amongst Urban Poor (STEPUP), Urban Wage Employment Programme (UWEP), and Urban Community Development Network (UCDN).

9. **Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA):**

A large scale employment guarantee scheme under the Mahatma Gandhi National Rural Employment Guarantee Act (Mahatma Gandhi NREGA) was introduced in India in a phased manner from February 2006. The Scheme is by far one of the largest social safety-net programme launched anywhere in the developing world. This is also historic for we have for the first time a demand driven scheme across the country unlike the several supply driven schemes of the past. It is ambitious in its scope and size. The idea of inclusiveness is laid down here and also the idea that growth can be sustainable only when the poor contribute "to" growth and benefit "from" growth.

3.6 Economic Reforms and Poverty

In India, focus has been more on absolute poverty than inequality. Poverty numbers show that it declined faster in the post –reform period as compared to pre-reform period. Within the post-reform period, poverty declined faster during 2004-05 to 2011-12 as compared to the period1993-94 to 2004-05[Between 1993-94 and 1999-2000 there has been a quick fall in rural poverty on all-India basis (from about 37 percent to 27 percent)]. Similar is the case with major States of India, though there are wide fluctuations among these States.

Another interesting feature of the incidence of rural poverty in the 1990s of the last century is that though there has been a diminution in it across the major States of India, the inter-State disparity in the incidence of rural poverty has been increasing. The relatively higher value of the coefficient of variation in the incidence of rural poverty in 1999-2000 compared to that in 1993-94 is a clear testimony to it.

i. In the very first decade of the new millennium the rural economy has, already, been hurt in the sense that the growth rate of production of each and every food item surveyed here has come down. This has given a great blow to the rural economy in India.

ii. Globalization, instead of lessening the disparity in the growth rate of food grains produced by the majority of States in our country, has widened it.

iii. Even after a three decades of globalization about 60 per cent of Indian workers are directly employed in the agricultural sector.

iv. Though the contribution of agriculture to the GDP has, over time, been decreasing, the percentage share of workforce in it has remained, more or less, stagnant. This has, really, caused a great trouble in the rural economy of India. Instead of lessening rural poverty, it has aggravated it.

Moreover, with the progress of economic reforms regional disparity has been growing wider and wider. With the ongoing progress of globalization, the regional disparity or the inter-state disparity among the major states of India has been widening.

It is noteworthy that reforms have bypassed, even, hurt, the socially disadvantaged groups as SCs, STs and OBCs, coupled with their insecurity of livelihoods. It is true that the poverty ratio were and still remain, significantly higher among the disadvantaged groups, reflecting historical injustices.

Trade openness has exacerbated poverty in India. Petia Topalova of the IMF argued in a study in 2007 that enhanced openness has adversely impacted poverty in India. Using the expenditure survey data collected by the NSSO and measuring openness by employment-weighted average of tariffs, she found working in the district level that increased openness had been associated with increased incidence of poverty in rural districts, but had no statistically significant effect in the urban districts. Starlting results, no doubt,, opposite to finding of other researchers.

3.7 Concepts of Inequality

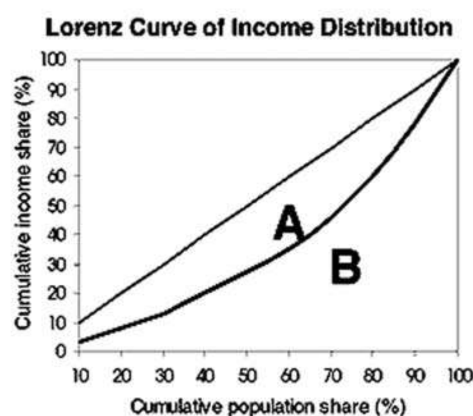
Inequality—the state of not being equal, especially in status, rights, and opportunities —is a concept very much at the heart of social justice theories. However, in public domain, it tends to mean different things to different people. Some distinctions are common though. Many authors distinguish “economic inequality”, mostly meaning “income inequality”, “monetary inequality” or, more broadly, inequality in “living conditions”. Others further distinguish a rights-based, legalistic approach to inequality—inequality of rights and associated obligations (e.g. when people are not equal before the law, or when people have unequal political power).

3.8 Inequality Measures

Absolute poverty and inequality are separate concepts that should not be confused. Absolute poverty refers to a standard of living below some benchmark. Inequality is concerned not with the absolute living standard of the poor, but with the differences between income groups.

Some commonly used measures of inequality are presented below.

i) Gini-coefficient of inequality: This is the most commonly used measure of inequality. The coefficient varies between 0, which reflects complete equality and 1, which indicates complete inequality (one person has all the income or consumption, all others have none). Graphically, the Gini coefficient can be easily represented by the area between the Lorenz curve and the line of equality. (See Fig.)



On the figure to the right, the Lorenz curve maps the cumulative income share on the vertical axis against the distribution of the population on the horizontal axis. In this example, 40 percent of the population obtains around 20 percent of total income. If each individual had the same income, or total equality, the income distribution curve would be the straight line in the graph – the line of total equality. The Gini coefficient is calculated as the area A divided by the sum of areas A and B. If income is distributed completely equally, then the Lorenz curve and the line of total equality are merged and the Gini coefficient is zero.

ii) Theil-index: While less commonly used than the Gini coefficient, the Theil-index of inequality has the advantage of being additive across different subgroups or regions in the country. Like Gini coefficient, Theil index varies between 0 and 1. Theil index, however, lacks the appealing interpretation of the Gini coefficient.

iii) Decile dispersion ratio: Also sometimes used is the decile dispersion ratio, which presents the ratio of the average consumption or income of the richest 10 percent of the population divided by the average income of the bottom 10 percent.

iv) Share of income/consumption of the poorest x%: A disadvantage of both the Gini coefficients and the Theil indices is that they vary when the distribution varies, no matter if the change occurs at the top or at the bottom or in the middle. Such a measure would not vary, for example, with changes in tax rates resulting in less disposable income for the top 20 percent at the advantage of the middle class rather than the poor.

(v) The UNDP Gender related Development Index (GDI) or Gender Empowerment Measure (GEM) provide summary information on gender inequality — this can be more informative where available at a disaggregated level within a country. Finally, national level Human Development Indices, their components and other similar measures can be used as a way of comparing inequality between countries.

3.9 Nature of Inequality in India

The highest inequality in India has been the slow growth in social indicators and human development in spite of high economic growth. One example is that nearly 40 % of our children suffer from malnutrition in 2015-16.

The approach of growth with equity has been followed since independence. However, focus has been more on absolute poverty than inequality. Poverty reduced but inequality increased during post reform period.

In India, consumer expenditure from NSS is generally used to estimate inequality. Data shows that inequality in income and wealth is much higher than that of consumption. Inequality in consumption and wealth is lower in rural areas as compared to urban areas. However, inequality in income is higher in rural than urban areas.

Branko Milanovich shows that India is the second highest income inequality country in the world, lower than only South India.

Many studies have shown that inequality in consumption increased in the post-reform period.: it increased marginally in rural areas while it rose significantly in urban areas.

Regional inequalities in income and wealth :

Some researchers such as Pravin Krishna and Guru Sethupathy using the Theil index and taking data from the NSS rounds conducted in 1987-88, 1993-94, 1999-2000 and 2003-05 find that within-states inequality accounts for more that 90 per cent of the total inequality over the country. Between– states inequality accounts for less than 10 per cent of the total inequality across the country.. Likewise, within-rural and within-urban inequality accounts for 90 per cent or more of the total inequality across the nations. Whatever may be the result, it is correct that economic growth has been uneven across states and that this has resulted in increased inequality among states— rich states have grown faster than the poorer states on average.

But researchers like Arvind Panagariya and Pinaki Chakraborty and others are of the opinion that the years 2003-04 to 2010-11 have seen nearly all states growing significantly faster than they did in any prior period. Thus the rise in inter-state inequality does not reflect the poorer states remaining poor or being further impoverished. They say that two of the poorer states— Bihar and Orissa— are among the fastest growing states today. Their success shows that when the national policies are conducive to growth, the door to poorer states is also opened wider. For example, Bihar has moved to Mumbai and Kolkata for jobs. That means that faster growth will attract migrants from slow growing region to fast growing regions helping them to grow through the usual channels such as remittances.

Income and wealth inequalities are high in all the major states of India with significant disparities in levels and trends. Income inequality is the highest in Gujarat (0.6) followed by Chattishgarh and West Bengal in 2011-12. It is the lowest in Jammu and Kashmir.

Inequality in wealth is very high across all the major states in 2012. Credit Suisse Report shows that the share of richest 1 per cent of Indians in total wealth increased from 40.3 per cent in 2010 to 58.4 per cent in 2016.

Inequality in Agriculture

Inequalities in agricultural sector persist. Consumption Gini and income Gini differs across states for agricultural households. In Bihar, it is nearly 40 per cent, as revealed from Situation Assessment Survey of NSS.

In-depth village surveys of 17 villages between 2005 and 2011 can give a better picture on inequality in income in agriculture. Survey report shows that inequality in income is very high. It is much higher than consumption inequality.And there are significant village-wise variations in income inequality.

Labour market Inequalities

Most of the inequalities will have labour market dimensions. Indian labour market is characterized by inequalities across sectors, wages and earnings, labour market access and, between organized and unorganized sector.

Decline in Employment and Inequality

Decline in employment growth between the period 2012 and 2016 across all sectors, especially in construction, manufacturing and IT sectors led to huge inequality in India.

Sectoral Inequality

There are significant inequalities across sectors viz. agriculture, industry and services. The services sector contributes to 57 per cent of the GDP but employs only 27 per cent of the workers. Research shows that inequality is the highest in service sector and it has the high contribution to the overall inequality.

Inequalities in Employment Status

There are different categories of employment in both organized and unorganized sectors. The income differences among these workers are enormou,

The rural income by quintiles shows that inequality (the ratio of Quantile 5/ quintile 1) increased from 19.3 per cent in 2004-05 to 25.1 in 2011-12.

High Share of informal Sector

The share of informal sector and informal employment in total employment respectively were 85 per cent and 93 per cent respectively; thus there has been significant inequalities between formal and informal sectors.

Wage Inequalities

There is high inequality among casual workers. The inequality among regular wage workers is consistently much higher than casual workers. Inequalities in regular

workers rose as skilled workers' wages have increased compared to less skilled workers.

The gap in the wage salary of government employees and other regular casual workers has been widened over 1983 to 2015-16.

Labour market inequalities among social groups

Inequalities among social groups in the labour market are increasing in India.Caste and community is another basis for segmentation. T.S Papola shows that in 2011-12, while chances of securing a regular job were 21.5 per cent in the case of caste Hindus, they were only 6.7 per cent in the case of STs and 12.4 per cent in case of those belonging to SCs.

Asset distribution also shows that the share of SCs and STs is low in total assets. Landlessness is found among SC households. Discrimination in labour markets and business is also found in some of the studies.

Gender inequalities in Employment

Recent study shows that gender inequality in employment is high. Women's share in organized sector is still much lower than men. The quality of employment in unorganized sector for women is lower than men. Unemployment is high for women. Gender Wage gap is still higher in wages.

Inequality of Opportunity

There is significant regional, gender, social and religious disparities in access to health and education. The inequality of opportunity is higher for disadvantaged sections like SCs,STs, minorities, females and less developed states. Even some of the states like Gujarat, the social development is lower than economic growth.

Inequality and Human Development

Higher inequality leads to lower human development. With lower inequalities, HDI will be much lower. The average loss in HDI due to inequality at all-India level is 32 per cent. It is highest in Madhya Pradesh (36%) and lowest for Kerala (17 %).

In sum, the above analysis shows an in-depth study of the nature, dimensions as well as trends in inequalities in India.

3.10 Reasons for the Rise in Inequality in India and Government Measures

a) *British Regime and Law of Inheritance*

The Law of Inheritance coupled with the institution of Private Property perpetuates income inequalities. It happens automatically that the son of an industrialist becomes a capitalist while the son of an agricultural labourer becomes an agricultural labour or at best becomes an industrial labour. In other words a child born with a silver spoon in the mouth automatically becomes rich while one who is born in a hut or a slum becomes poor because of the Laws of Inheritance and Private Property.

b) *Population Explosion*

As a result of galloping population growth in this thickly populated country, savings evaporate, scarcities multiply and resources are stretched so thin that they cannot cover the most essentials of life. In India the phenomenal growth of population coupled with widespread poverty has eroded and dissipated development gains.

c) *Inflation*

The India masses are in the grip of inflation and the rise in prices does not, *pari pasu*, lead to corresponding rise in incomes. The prices have been hiking continuously whereas the incomes of the fixed income groups have failed to increase proportionately. The big land-lords, big businessmen, the profiteers, the speculators and the industrialists are having their heyday, because by selling their surplus they can earn larger incomes and amass greater wealth.

d) *Inequality in Education and Professional Training*

Educational inequality is a potential cause of economic inequality. Monetary remuneration usually depends on the level of educational qualification. Highly educated people always can command higher salary and vice-versa. These illiterate masses will have to remain at the base of income pyramid. Even educated people find it difficult to make both ends meet with their

salary and then, what to talk about the income of the illiterate and less educated masses?

e) *Unemployment*

India carries a crushing burden of unemployment. Though educated manpower is a small fraction of the citizen, a large chunk of it is unemployed and under-employed. This devil of unemployment is a potent cause of economic inequality, for unemployment spells wastage of human capital and the resultant economic disability.

f) *Capital Intensive Technology*

In a country like India where investible funds are very scarce, adoption of capital intensive technology insulates very many from the possibility of getting work. Under these circumstances the poor masses have to go without any gainful employment and remain in the vicious circle of property.

Government measures to combat inequality

1. **Land reforms and redistribution of agricultural land.** It is a well-known fact that income inequalities in the rural sector emanate mainly from the concentration of agricultural land. "Land reform is a classic example of a redistributive policy. Operation Barga, a tenancy reform in the Indian State of West Bengal in the late 1970s and early 1980s, is one of the few examples of large-scale transfers of property rights not accompanied by major social upheaval. The operation was associated with an 18 per cent increase in agricultural output in the State."

2. **Control over monopolies and restrictive trade practices.** Control of monopoly tendencies is considered necessary for reducing income inequalities.

3. **Employment and wage policies.** Until the Fourth Five Year Plan, the employment objective was not taken seriously. T.N. Srinivasan has succinctly remarked that "employment schemes proposed in the plans were like frills added to their structure."

   Role of statutory minimum wage in ameliorating the condition of the poor is limited in this country. In India, hardly 10 per cent of the working population is presently employed in the organized sector. The statutory wage provisions become unenforceable and ineffective, particularly in the countryside where

agricultural labour is not only ignorant of law, but is also unorganized and oppressed.

4. **Social security measures.** The most comprehensive social security measure, however, is the Employees State Insurance Act which entitles the insured workers to medical benefits, disability benefit, benefits for the period of sickness, maternity benefit and benefits to dependents. Undoubtedly, these social security measures are of great importance and their contribution in alleviating destitution in urban life is not small. Nonetheless, social scientists and other experts insist that unemployment dole and old age pension are the only measures which make a frontal attack on poverty and thereby reduce income inequalities. Unfortunately, these measures have not been introduced in India as yet.

5. **Minimum Needs Programme.** Since the beginning of the 1970s, a very influential section of development economists has started asking for the pursuit of the minimum needs programme in developing countries.

6. **Programmes for the uplift of the rural poor.** The hardcore of the poverty is to be found in the rural areas. The poorest sections in the rural areas belong to the families of landless agricultural labourers, small and marginal farmers, rural artisans, Scheduled Castes and Scheduled Tribes. In order to raise income of these categories of rural poor, broadly the following three types of programmes have been undertaken: (i) Resource and income development programme for the rural poor, (ii) Special area development programme, and (iii) Works programme for creation of supplementary employment opportunities.

To sum up, the various measures supposedly undertaken by the government have made little impact on poverty, and thus income inequalities perpetuate in their ugliest form.

Inequality: What must be Done?

India has had a long-standing national commitment to the eradication of poverty and reducing inequality since independence, but as time passed by, it had not tackled

inequality issue properly. Instead, its economic reforms had led to increased inequality. Rural –urban as well as regional inequality, disparity between the richest and the rest of the population in both income and expenditure had risen enormously. If inequality increases and the rich spend money on conspicuous consumption, then it would be socially explosive. It is a fact that all measures concerning inequality point to significant increase in overall inequality in the 1990s and beyond.

(a) Regarding policies, inequality cannot be left to markets. Public policy intervention is important. If there is no alternative except market functioning, then in that case markets need to be intelligently regulated to embody human development objectives without destroying economic innovation market.

(b) Employment creation with quality should be at the heart of the strategies for reducing inequalities.

(c) The Government should have the vision to have an inclusive society in which equal opportunities are provided for the growth and development of all sections of the population.

(d) In India, redistribution measures such as land reforms or asset distribution have not been successful. Macro policies like fiscal policies for raising tax/GDP ratio and raising expenditures on social sector can be used.

(e) Wage subsidies instead of capital subsidies can help raising employment.

(f) On agriculture, small and marginal farmers, rainfed areas, less developed states, women and disadvantaged social groups should be kept in mind while framing agricultural policies.

g) As the India Employment Report (2016) mentions manufacturing should be the focus for raising quality employment. However, services have to be promoted as both are complementary.

(h) Exports growth is equally important as they generate more employment if they relate to labour intensive sectors.

(i) The agenda for inclusiveness and equality has to be given highest priority for broad-based social and economic development.

(j) Reduction of inequality requires social, political and cultural change, not simply policies that aim to foster economic growth.

(k) The widest possible social and political participation in social development is crucial to the legitimacy and effectiveness of inequality reduction, and this inevitably challenges vested interests and cultures of violence.

(l) Policy conflicts are inevitable in a modern world in which individualism, egalitarianism, and democracy are simultaneously present. Nonetheless, inequality and environmental sustainability, require political actors to think big and think long term if inequality is to be reduced in the midst of instabilities and uncertainties associated with climate change.

3.11 Role of Inclusive Growth

Inclusive growth approaches emerged, advocating broadly-shared well-being and the extension of disproportionate benefits of growth to a wider share of the population. It is such growth in which equal opportunities are provided for the growth and development of all sections of the population including the marginalized, vulnerable and weaker sections to lead productive, safe and dignified lives.

UNDP has described inclusive growth as "the process and the outcome where all groups of people have participated in growth and have benefited equitably from it". This inferred that inclusive growth should include all sections as recipients as well as partners in growth and that inclusion of the excluded should be embodied in the growth process. According to Basely inclusive growth is the "growth that has a high elasticity of poverty reduction".

A major weakness in the Indian economy is that the growth is not perceived as being adequately inclusive for many groups, especially Scheduled Castes (SCs), Scheduled Tribes (STs), and weaker section. Gender inequality is also a major problem and some of the structural changes taking place have an adverse effect on women. Growth will not be inclusive if some groups are discriminated against, overtly or covertly. That is why, inclusive growth has been projected as the strategic pillar of 12th Five Year plan and India has integrated sustainable growth as a focus area in its growth strategy plan within the 12th Five-Year Plan (2012-2017) faster, sustainable and more inclusive growth. India's priorities for green growth centre on providing food and energy security, including others.

Inclusive growth has full many a role to play: to lower incidence of poverty and reduce inequality, to have a broad-based and significant improvement in health outcomes.and Universal access for children to school, to get increased access to higher education and improved standards of education, including skill development, to have better opportunities for both wage employment and livelihood, Improvement in provision of basic amenities like water, electricity, roads, sanitation and housing are of utmost importance. Fig. below shows elements of inclusive growth.

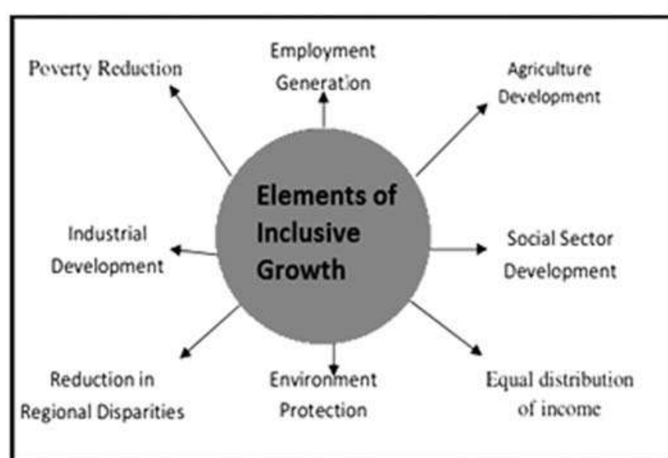


FIG: Elements of inclusive growth

3.12 Conclusion

India has had a long-standing national commitment to the eradication of poverty and reducing inequality since independence, but as time passed by, it had failed to tackle the issues both properly. Instead, its economic reforms, had led to increased inequality and to pay little attention to eradicate poverty. Rural-urban as well as regional inequality, disparity between the richest and the rest of the population in both income and expenditure had risen enormously. If inequality increases and the rich spend money on conspicuous consumption, then it would be socially explosive. It is a fact that all measures concerning inequality point to significant increase in overall inequality in the 1990s and beyond. To escape from this quagmire is the urgent need of the hour.

3.13 Key Terms Simplified

Poverty Line : Overty line is a line drawn on the basis of the particular level of income, say, the cost of bare subsistence below which the really poor cannot meet the minimum levels of basic human requirements.

Gini-coefficient of inequality: This is the most commonly used measure of inequality. A measure of income inequality calculated from the Lorenz curve and ranging from 0 (for perfect equality — everyone has the same amount)) to 1 (for perfect inequality— one person has everything, while everyone else has nothing).Graphically, the Gini coefficient can be easily represented by the area between the Lorenz curve and the line of equality.

Theil-index: Like Gini coefficient, Theil index varies between 0 and 1. Theil index, however, lacks the appealing interpretation of the Gini coefficient.

Inclusive growth ; This is "the process and the outcome where all groups of people have participated in growth and have benefited equitably from it". This inferred that inclusive growth should include all sections as recipients as well as partners in growth and that inclusion of the excluded should be embodied in the growth process. According to Basely inclusive growth is the "growth that has a high elasticity of poverty reduction".

3.14 Questions with Answer Hints

Questions Carrying 2.5 marks

1) **Give two recommendations for eradication of poverty.**

   [Ans: The following actions can be recommended: (a) Encourage the institutionalization of social protection programmes for the poor and the poorest. and (b) prioritize programmes and policies that will provide food security for poor households through increased agricultural productivity and improved access to food, and access to basic health services for all.]

2) **How is inequality different from poverty?**

   [Ans: Inequality is different from poverty but related to it. Inequality concerns variations in living standards across a whole population. By

contrast poverty focuses only on those whose standard of living falls below an appropriate threshold level (such as a poverty line). This threshold may be set in absolute terms (based on an externally determined norm, such as calorie requirements) or in relative terms (for example a fraction of the overall average standard of living). Intuitively relative poverty is more closely related to inequality in that what it means to be poor reflects prevailing living conditions in the whole population. But the degree of inequality will have implications for both conceptions of poverty.]

3) **What are the three main trends in contemporary income inequality?**

[Ans: 1. Changes in within-country inequality. 2. Changing trends in economic growth and income between rich and poor countries.3. Changing trends in economic growth and income between China and India and rich countries.]

Questions Carrying 5 marks

1) **What are the causes of persistence of poverty in India**

[Ans: Causes of persistence of poverty in India are outlined below:

a) **Low agricultural productivity *:*** Poverty and real income are very much interrelated. Increase in real income leads to reduction of the magnitude of poverty. So far as agricultural sector is concerned, the farmers even today are following the traditional method of cultivation. Hence there is low agricultural productivity resulting in rural poverty.

b) **Unemployment and underemployment:** Unemployment is the reflection of poverty. Because of lack of employment opportunities, people remain either unemployed or underemployed. Most of these unemployed and underemployed workers are the small and marginal farmers and the landless agricultural labourers.

c) **Unequal distribution of land and other assets**: Land and other forms of assets constitute sources of income for the rural people. But, unfortunately, there has been unequal distribution of land and other assets in our economy. The size-wise distribution of operational holdings indicates a very high degree of concentration in the hands of a few farmers leading to poverty

d) **Population:** Rapid growth of population aggravates the poverty of the people. The growth of population exceeds the rate of growth in national income. Population growth not only creates difficulties in the removal of poverty but also lowers the per capita income which tends to increase poverty. The burden of this reduction in per capita income is borne heavily by the poor people.

e) For economists like Surjit Bhalla and Deepak Lal poverty is caused by a lack of economic growth. Lal argues that the countries that have moved "from plan to market" and have pursued the "classical-liberal package" of "free trade, Gladstonian finance and stable money" have massively reduced structural poverty through "trickle down."

At the opposite extreme comes Walden Bello and John Hilary. They both argue that the world is becoming more unequal and a variety of problems (poverty, unemployment, economic crisis, hunger, injustice and environmental degradation) are actually caused by the spread of and deepening of capitalism, i.e. caused by capitalist globalization (and associated neo-liberal economic policies). Jeffrey Sachs sees the problem of poverty as a lack of finance and technology— a massive one-off transfer of finance to poor countries will create a form of caring capitalism that can eradicate poverty. Dani Rodrik, a neoclassical economist in his book *One Economics, Many Recipes* (2007) voices forth that poverty can be caused by too little globalization in some contexts and by too much (or the wrong forms of) globalization in others.

2) What would be the likely effects of economic inequality?

[Ans:There is an argument that increase in inequality of income would augment saving because propensity to save is more with the rich than with the poor. According to this transfer of income from the poorer to the richer groups will generate more saving. This will facilitate investment and expedite the process of economic development.

Inequality entails enormous suicidal effects. It leads to misdirection and misuse investible funds and thus acts as an insurmountable barrier to economic growth. High income groups have disproportionate power to direct society's scarce resources into use of their own choice, some of which

may, not only be selfish, but questionable as well. The avalanche of luxurious articles such as domestic refrigerators, television sets, room air conditioners, passenger cars, scooters and motorcycles, liquor, face powder, instant coffee, etc., which are produced substantially in this country support this premise.

The misdirection and misuse of scarce investible funds mitigate, dampen and distort economic growth.

Economic inequality, stemming from inheritance or business fortune, is likely to cause and foster laziness, lethargy and indolence which draw the elite group off productive scene. Inequality is likely to ill influence worker efficiency. The result is the wastage of human capital which will tell upon economic growth.

Extreme inequality in living standards is likely to boost class feeling and strife which will endanger co-operation essential for economic growth. As President Kennedy rightly stated, if a free society cannot help the many who are poor, it cannot save few who are rich.]

3) **Do you think that economic reforms have led to increased inequality in India? Give arguments.**

   [Ans: See Section 3.9]

Questions Carrying 10 marks

1) **Give an outline of the government measures to eradicate poverty?**

   [See section 3.5]

2) **The emerging trend in economic inequality in India does not augur well. Point out the main factors responsible for the trend and suggest appropriate measures to this effect.**

   [Ans: See Section 3.9 and 3.10 (The headline : Inequality: What must be done?)]

3) **Do you think that the contemporary world exhibits very high level of inequality of income and wealth both between countries and within countries? Justify.**

   [Ans: Income is concentrated in the hands of the top 5 % of the world's population who hold 37 % of the global income, while the poorest 5 % hold

only 0.3 %. The ratio in income between the top and bottom 5 % is just short of 200 to 1. Another way to show high income inequality is to calculate a Gini coefficient for the world as a whole. The Gini coefficient ranges from 0 (for no inequality) to 100 (highest possible inequality). This measures now stands at around 70 for the world as a whole, making global levels of income inequality higher than the inequality in income within any single country. Within-country Gini measures vary between 30 and 30 points in most of western Europe, rising to 40+ in the United States, China, and Russia, around 50-55 in Latin America and Africa to around 60 in Brazil and South Africa.

These high levels of inequality in income are taken as significant not simply because they limit the consumption of commodities available to individuals, but also because of the negative social consequences of low income levels on the other aspects of well being including health, education, and social participation. R. Wade in 2007 sees income inequality as closely linked with higher poverty, unemployment, crime, worse health, property rights, and skewed access to public services.

S. Babones finds strong statistical connection between income inequality, lower life expectancy, higher infant mortality, across 100 countries over several decades.

The Gini coefficient for wealth in 2000 was around 80 when measured for household, and 89 for individuals. Credit Suisse Global Wealth Report of 2012 articulates that these sharp inequalities are confirmed with the top 8% of adults owning in excess of 82% of wealth, while the bottom 70% owning just in excess of 3%. The recent Credit Suisse Global Wealth Report in Indian case shows that the share of richest 1 per cent of Indian, in total wealth increased from 40.3 per cent in 2010 to 58.4 per cent in 2016. In China the top 10% of wealth holders receive 41-42% of national wealth. Thus Wealth inequality is more pronounced than that of income inequality across the globe and within-countries.]

4) **What must be done, in your opinion, to reduce severe inequality in income and wealth in India?**

[Ans: See section 3.10. Last Part]

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Unit 4 □ EMPLOYMENT AND SOCIAL SECURITY

Structure

4.1 Objectives

4.2 Introduction

4.3 Meaning

4.3.1 Employment trends

4.3.2 Different Types of Unemployment

4.3.3 Nature of Unemployment Problem

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4.3.5 Extent and Magnitude of Unemployment

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4.6 Reforms and Employment

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4.10 Key Terms simplified

4.11 Questions with Answer Hints

Questions Carrying 2.5 marks

Questions Carrying 5 marks

Questions Carrying 10 marks

4.12 References

4.1 Objectives

After reading this unit, you will be able to:

- understand the meaning of unemployment with its various types;
- state the nature, magnitude, measurement as well as estimates of unemployment in India;
- analyze the causes of unemployment;
- find policy prescriptions towards employment generation;
- know various employment generation schemes of the government;
- have an idea about informal sector and informalisation of the labour force and
- get a glimpse of social security schemes in the organized and unorganized sector workers.

4.2 Introduction

What is happening to employment in the country? We know that ever year there are nearly 13 million new entrants into the nation's labour force. Are they getting half-way decent employment opportunities? What proportion of the labour force is unemployed? How widespread is under-employment and structural unemployment? What is the government policy for employment generation? What are its employment promotion schemes? What sort of job and social security do workers enjoy? These are the questions we want to answer.

Actually unemployment constitutes a serious economic, social and political problem facing as we see nowadays. In its economic aspect, the existence of large numbers of unemployed people means a tragic waste of human resources and the resultant deprivation of society of the goods and services the unemployed could produce. Socially, the persons without work can become a potential source of danger to the political stability of the society. Recent agitations by people like the Marathas in Maharashtra, Patidars in Gujarat, Jats in Haryana and Kapus in Andhra Pradesh relates to youth unemployment.

A nation's economic health is indicated by the extent of domestic savings (expressed as a percent of GDP) and a small rate of 'unemployment'. It is therefore important for an economy to have a periodic assessment of its employment requirements and implement suitable policies required for generating the type of employment required. Since the latter depends on the structure of the economy, particularly in terms of the skill composition of its workforce, an important policy decision rests on the mix of labour-intensive and capital-intensive methods of production practices to be adopted. It is important to note that employment is a resulting factor (i.e. it is a result of appropriate policies pursued) and in its mismatch, an economy would face the consequences of either lower growth (with higher unemployment levels) or a situation of 'jobless growth' (i.e. income growth not accompanied by enough employment generation).

Against this background, the present unit deals with the concepts and issues of employment and unemployment as is applicable for a predominantly agricultural or agrarian economy like India. In particular, it deals with the issues of their measurement and the polices of employment pursued. Besides these two aspects, we will also study about the concept of 'informal economy' and in its light the importance of strengthening social security provisions for the poor.

4.3 Meaning

Unemployment is simply identified with the phenomenon when "people do not have a job". The unemployed are those who are looking for work but cannot find it at the going wage. That means he or she is not in paid employment or self-employment during a particular reference period;

4.3.1 Employment Trends

The performance in the 1970s is recorded higher employment growth of almost 3 per cent. The employment rate declined to 2.22 per cent during 1977-83. The fault line lies in the **contraction** of employment growth in agriculture, manufacturing, electricity etc. This declining trend was observed during 1983 to 93 (Table 4.1).

Table 4.1: Growth Rate (%) in Employment and GDP

Period (long/short)	Employment	GDP	EE
1983-93 (Long)	**2.0**	**5.0**	**0.40**
1994-2005 (Long)	**1.8**	**6.3**	**0.29**
1999-2010 (Long)	**1.5**	**7.5**	**0.20**
2005-10 (short)	**0.2**	**9.0**	**0.02**

Source: Papola; Sahu, 2012, p-26.

A long term assessment for the three sub-periods is shown above, juxtaposing with the corresponding growth rates in GDP. Table 4.1 shows that the growth rate in GDP is inversely related to growth rate in employment over the long period of 1983-2010. **Employment elasticity,** measured as the responsive of employment growth to that in GDP growth, has also consistently declined. The trend in this is supportive of the hypothesis of jobless growth in the Indian economy over the period 1983-2010.

In addition to these, there has been casualisation of workforce over the period 1972-73 to 1999-2000 in both rural and urban areas. The period 2004-05 was again also marked by an increase in the casualisation of the labour force. The National Commission for Enterprises in the Unorganized Sector (NCEUS) in India submitted its report in 2007 concluded that 93 per cent of the workforce of the country is engaged in the informal sector. There has been an increasing trend of employing informal labour even in the organized sector.

As per the data released by the Labour Bureau during 2016, India created only 1.35 lakh jobs in 2015 in comparison to 4.19 lakh in 2013.As many as 550 jobs are lost every day. If this trend continues employment will shrink by 7 million by 2050 in the country, while population will increase by 600 million.

The situation is grave. Employment growth declined from about 1.84 per cent per annum during 1993-94 to 2004-04 to 0.45 per cent per annum during 2004-05 to 2011-12.

Using data from Employment-Unemployment survey of Labour Bureau, Vinoj examines employment trends during the period 2012-16. This study shows that employment growth stagnated across all sectors and unemployment increased. There seems to be absolute decline in employment between 2013-14 and 2015-16. Sectors

such as construction, manufacturing,and IT/ business process outsourcing sectors fared the worst over this period. Estimates by CMIE show that employment declined by 1.5 million after demonetization in November 2016.

4.3.2 Different Types of Unemployment

To understand the sources/ causes of unemployment, it is better to go by its categories: (a) Voluntary unemployment and (b) Involuntary unemployment. The latter is further dichotomized into: (a) Structural; b) Frictional; (c) Cyclical, and (d) Seasonal.

The reasons for each of the above kinds of unemployment are somewhat unique.

(a) Voluntary Unemployment

Voluntary unemployment is that type of unemployment where the members of the labour force refuse to take jobs offered at a given wage rate and which is deliberately chosen by the person unemployed. **Voluntary unemployment** means willful unemployment.

(b) Involuntary Unemployment:

This is that type of unemployment when the members of the workforce are unable to obtain employment at a given wage rate due to lack of jobs. **Involuntary unemployment** means forced unemployment. A summary account of involuntary unemployment is given below:

(i) Frictional Unemployment:

Frictional unemployment is unemployment in between jobs**.** It arises as a byproduct of normal economic changes, *e. g.,* the closing of some firms, changing production techniques within firms.

(ii) Cyclical Unemployment

Some unemployment is cyclical; that is, it is associated with the fluctuations in the business cycle. During a downturn in the economic activity unemployment rises accompanying a general decline in business activity.

(iii) Seasonal Unemployment:

This type unemployment arises from seasonal fluctuations in the demand and supply of labour.

Seasonal Unemployment is caused by fluctuations in season: In agriculture based economies like India, farmers and agricultural labourers have little work during off-seasons (post-Rabi, pre-Kharif periods etc,).

(iv) Disguised Unemployment: This refers to people who are employed with low productivity in the agricultural sector and could, therefore, be transferred to modern high-productivity sector without output loss in the agricultural sector.

(v) Structural Unemployment

Structural unemployment exists when there are jobs available and people willing to do work, but there are not a sufficient number of people qualified to fill the vacant jobs. Thus, structural unemployment is a form of unemployment caused by a mismatch between the skills that workers in the economy can offer, and the skills demanded of workers by employers

4.3.3 Nature of Unemployment

Providing productive and gainful employment on a sufficient scale to the labour force is the major goal of inclusive growth strategy. But India has failed in this direction. There has been an increase in the volume of unemployment from one Plan period to another because during the 1950-2011, the population in the country increased at an alarming rate of around 2.1 per cent per annum and with it the number of people coming to the labour market in search of jobs also rose rapidly, whereas employment opportunities did not increase most of the time.

The nature of unemployment in India can be grouped into: (a) rural unemployment like seasonal unemployment and disguised unemployment or under-employment which is due to seasonal factors and (b) urban unemployment as industrial unemployment and educated unemployment which are structural in nature and is due to a mismatch in skills. However, most of the unemployment in India is definitely structural. Radical reforms in the structure of the economy can be of much help in eliminating this kind of structural unemployment.

Looking at the rural labour market trends, one finds that employment in agriculture has declined both in relative and absolute terms. Alongside, female workforce in agriculture has been declining in many States of India. So there has occurred some structural changes in the rural labour market, as these unemployment trend shows.

From a social security perspective, formal employment amounts to 6 crores, to which we must add an estimated 1.5 crore of government workers (excluding defense), for a total of 7.5 crores. Since the non-agricultural workforce (again adding government) is estimated at 24 crores according to the 68th Round (2011) of the NSSO Employment-Unemployment Survey, formal employment under this definition is equivalent to 31 percent of the non-agricultural workforce. In what follows is that that the employment situation in India is grave.

4.3.4 Causes of Unemployment in India

Most of the unemployment in India is structural in nature. Its major causes are discussed below :

1. Jobless growth:

The NSSO 55th Round had shown a deceleration in the growth of employment from 2 per cent per annum in the period 1983 to 1993-94 to less than 1 per cent per annum in the period 1993-94 to 1999-2000 and an economy-wide decrease in employment elasticity (that measures the sensitivity of employment growth to the GDP growth) from 0.41 to 0.15. across all sectors reflecting a deceleration in employment growth. This result led to the phenomenon of 'jobless growth. This implies that the growth rate in the labour force is greater than the growth rate in employment. And this has resulted in an increase in the unemployment rate (i.e. unemployed expressed as a percentage of labour force). Thus the country witnessed jobless growth in the 1990s.

This trend has been reversed in period 1999-2000 to 2004-05 and the employment scenario has undergone a fundamental change. As per the 61st Round of NSS, the employment in the period 1999-2000 to 2004-05 has increased at an annual rate of 2.89 per cent, with 60 million jobs having been added in the five-year period but again declined to just 0.21 per cent per annum over the next five years period 2004-05 to 2009-10.

2. Increase in labour force: Overall, the labour force in India increased from around 337 million in 1991 to around 488 million in 2013— an expansion of 151 million in labour force in roughly 22 years. But employment level fell short of the labour force throughout the period, creating a consistent gap between the two. This is one of the main causes of unemployment.

3. Inappropriate Technology: Inappropriate technology is another reason. The expansion of capital –incentive technique in industries during the plan period, instead of labour-incentive technologies as well as the adoption of capitalist farming in Indian agriculture have resulted in the increase in the number of unemployed persons both in urban and rural areas.

Besides, in India there exists defective employment planning and manpower planning, defective education system and population explosion that added further dimensions for ballooning of unemployment numbers in India.

All these above factors add to serous unemployment problem in India.

4.3.5 Extent and Magnitude of Unemployment

As the conventional estimates made by the Planning Commission were subject to some serious limitations, urgency was felt to develop good estimates of unemployment. It is in this context that the NSSO has developed and standardized the concepts and definitions of labour force, employment and unemployment since 1972-73.

4.3.5.1 Issues of Measurement of Employment and Unemployment

Issues relating to measurement of employment and unemployment mainly encompass (A) concept and measure of unemployment, (B) estimates of unemployment.

(A) Concepts of Unemployment

Based on the 27th Round of the National Sample Survey on employment and unemployment, the Sixth Five Year Plan has furnished estimates on the following four categories of unemployment.

These are – (i) Usual Status (ii) Usual Principal & Subsidiary Status (UPSS) Approach (iii) Current Weekly Status (CWS) unemployment and (iv) Current Daily Status (CDS) unemployment.

(i) **The Usual Status unemployment measure :** Measured in numbers of persons who remains unemployed throughout the year, it refers to relatively long–term unemployment or **chronic unemployment** among educated and skilled persons who may not accept casual work. Actually, the Usual Status Unemployment rate is a person rate.

(ii) **Usual Principal & Subsidiary Status (UPSS) Approach**: The second important approach to measure the labour force parameters is usual principal & subsidiary status approach. This approach is a hybrid one which takes into consideration both the major time criterion and shorter time period (30 days or more in any economic activity). Thus a person who has worked even for 30 days or more in any economic activity during the reference period of 365 days is considered as employed under this approach. In this approach also, the same reference period as taken in the usual principal status approach (UPS) is used. This approach is also called usual status approach

(iii) **The Current Weekly Status (CWS) unemployment measure:** Here a person is regarded as employed if she or he worked for at least one hour during the reference week. It follows that a person is unemployed if she or he did not work for even one hour during the reference week. This is also a person rate like usual status unemployment rate.

(iv) **The Current Daily Status (CDS):** Measured in person days, this concept which considers the activity status of a person who does not work at all for each day of the preceding seven days is deemed unemployed. A person who works at least for one hour but less than four hours is considered having worked for half a day. If she or he works for four hours or more during a day, she or he is considered as employed for the whole day. The CDS unemployment rate is a time rate.

Among these concepts, the CDS is the most comprehensive measure of unemployment covering open as well as partial unemployment but we must remember that all these above are complementary to each other.

(B) Estimates of Employment and Unemployment

So far as the estimates of unemployment in Pre-reform Period is concerned, we can say that during the period (1972-73 to 1993-94) there is no clear trends regarding the rate of unemployment, but if we compare unemployment position in 1993-94 with that in 1983 and 1972-73, we observe that there has been marginal decline in unemployment rates.

The Planning Commission had independently estimated labour force and employment on April 1, 1992 to yield the magnitude of unemployment. According

to the Planning Commission, those of the people who looked for full-time new employment opportunities were around 23 million in April 1992.

(C) Estimates of Unemployment in Post-reform Period

At the all-India level the estimates of current daily status(CDS) unemployment indicate worsening of situation during the period of economic reform in all the four population segments, viz, rural males, rural females, urban males and urban females.

NSSO 60th round results**:** According to the 60th Round of NSSO Survey on Employment and Unemployment, unemployment rate which is defined as the number of persons unemployed per thousand in the labour force on CDS basis was highest for rural male.

NSSO 66th Round Results**:** Under both the UPSS and CWS approaches, urban unemployment was higher than rural unemployment in 2009-10. However, rural unemployment was higher under the CDS approach.

NSSO 68th Round Result**:** According to 68th Round, Unemployment rates for females were higher than for males in all categories according to all approaches.

Unemployment in 2015-16: The results of Employment and Unemployment Survey (EUS) conducted by the Labour Bureau, Ministry of Labour and Employment for the year 2015-16 shows that the Labour Force Participation Rate (LFPR) at the all India level based on usual principal status approach was estimated at 50.3 per cent. The All India LFPR of females is much lower than that for males. There are wide interstate variations in the female LFPR as well. The North Eastern and Southern States, in general, display high female LFPR as compared to low levels in Northern States. As per EUS, 2015-16, the unemployment rate for females was higher than that of males across rural and urban areas.

Unemployment in 2017-18: The political controversy erupted regarding the publication of employment data recently. But the fact is that the latest data on unemployment in India, withheld by the present NDA government, which is yet to come in public domain, is the first comprehensive survey on employment. India's unemployment rate hit a 45-year-high of 6.1 per cent in 2017-18, as per the National Sample Survey Office's (NSSO's) periodic labour force survey conducted between July 2017 and June 2018. The report further said that unemployment was higher in urban areas (7.8%) as compared to 5.3% in rural areas of the country. The

unemployment rate among youth reached a record high level in 2017-18. For educated rural females, the unemployment rate ranged in between 9.7% to 15.2% between 2004-05 to 2011-12, which rose to 17.3 per cent in 2017-18. In case of rural educated males, the joblessness rate surged to 10.5 per cent in 2017-18 from 3.5-4.4% between 2004-05 to 2011-12. The rate of joblessness among rural males in the age group of 15-29 years jumped more than three folds to 17.4 per cent in 2017-18 versus 5 per cent in 2011-12.

4.4 Employment Policy of Government of India

Policy up to 1980s

Unemployment was recognized as a serious problem from the very inception of the planning process in India, especially since launching of the **Second FYP** (1956-61). The Second Plan (1957-62) estimated the backlog of unemployment at 5 million and annual addition to labour force at 1.5 to 2 million. By the end of second FYP, the estimated unemployment was placed at 5 million with an expected annual addition of 1.5 to 2 million fresh entrants to the labour force. To meet the requirement of employment for this magnitude of persons, it was envisaged that a target of 5 percent annual growth rate in GDP would be adequate to generate employment to take care of both the backlog and the fresh addition to the labour force.

The **Third and the Fourth plan** equally treated employment generation. Planners were under the impression that high growth alone would be sufficient to reduce unemployment and poverty in general. While employment grew by an average of 2 percent per annum, the labour force grew faster at 2.5 percent. As a result, the number of unemployed rose to 10 million by 1973-74.

Recognizing the urgency to address the problem of growing unemployment as well as of persistent poverty which was estimated to affect over one-half of India's population, the **Fifth Plan (1974-79)** envisaged a reorientation of the development strategy towards an employment-oriented growth and the introduction of special anti-poverty and employment programmes. This approach continued for a decade or so. And in this plan several special anti-poverty and employment- oriented programmes were introduced.

Yet the result was not satisfactory. Keeping in view these facts, the employment policy under the **Sixth Plan (1980-85)** aimed at "the two major goals of reducing underemployment for the majority of labour force and cutting down on long-term unemployment".

Emphasis on self-employment ventures in agriculture, cottage and small industries and allied actives as well as non-farm operations was also emphasized. Some of the major employment programmes undertaken were the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP), the National Scheme of Training Rural Youth for Self Employment (TRYSEM), the Operation Flood II Dairy Project and other dairy development schemes and Fish Farmers Development Agencies.

Despite these earnest efforts, the magnitude of the unemployment problem continued to increase. Accordingly, **the Seventh Plan (1985-90)** for the first time placed employment at the centre of development strategy. The Planning Commission stated, "The central element in the development strategy of the Seventh Plan (1985-90) is the generation of productive employment." Under this plan, there was considerable emphasis on creation of self-employment and wage employment for the poorest sections of the community (like NREP, RLEGP) and IRDP) . Despite these efforts unemployment continued to increase. And it stood at 2.3 million as on April1, 1992. The number of unemployed was estimated to have risen to 14.5 million by 1988 and further to 17 million by 1991-92(Planning Commission, 1992).

Policy beyond 1980s

It is often rightly argued that a high rate of economic growth is a necessity, but not a sufficient condition to solve the unemployment problem in India. In India, where employment elasticity is quite low, an annual growth rate of 8-9 per cent can provide only a partial solution to the unemployment problem in India; economic growth by itself can never solve the unemployment problem and the government policy which gives overriding priority to economic growth would add to unemployment backlog rather than reducing it. Therefore, under **the Eighth Plan (1992-97**), there was emphasis on both the growth of the economy and restructuring of output composition of growth. Defining its employment perspective, the Eighth Plan clearly stated, "The employment potential of growth can be raised by readjusting the sectoral composition of output in favour of sectors and sub-sectors having higher employment

elasticity." To achieve the plan target of 2.6 — 2.8 per cent of annual growth in employment in a period of ten years (i.e., by 2002), the Plan advocated readjusting the sectoral composition of output in favour of sectors and sub-sectors having higher employment elasticity.

It is interesting to note that in the Eighth Plan (1992-97), for the first time, employment was considered to be important enough a subject to merit an independent chapter in the Plan document (Planning Commission, 1992, Chapter 6).

The Ninth FYP (1997—2002): backed to Growth-led Employment Strategy: Optimism from higher economic growth in 1990s, identified employment as one of the three important dimensions of state policy, the others being quality of life and regional balance. Productive work, it was pronounced, is "not merely a means to the ultimate end of economic well-being" but should be seen "as an end in itself, — a basic source of human dignity and self-respect" (Planning Commission, 1998, p.13). It also emphasized concentrating on sectors, sub-sectors, and technologies which are more labour –intensive, in regions characterized by high rates of unemployment and underemployment.

In spite of these efforts at employment generation, the problem became more serious in the 1990s. This would be clear from the fact that there had been a deceleration in the growth of employment from 2 per cent per annum in the period 1983 to 1993-94 to less than 1 per cent per annum in the period 1993-94 to 1999-2000. Employment elasticity of GDP growth correspondingly over the period declined.

A renewed urgency to focus on employment appeared to have emerged in the planners' mind by the end of the 1990s. The Planning Commission appointed two Committees in quick succession (a Task Force on Employment Opportunities in 1999 and a Special Group on Targeting 10 Million Employment Opportunities Per Year in 2001) to examine the trends in and potential for employment generation and suggest a strategy to create employment opportunities to attain the goal of employment for all within a specified period of time. Their assessments and recommendations (Planning Commission, 2001b and 2002a) were used in the formulation of **the Tenth Plan** (2002-2007). But as ill luck would have it, at the beginning of Tenth Plan the backlog of unemployment was 35 million. The plan targeted to reduce it to 21 million at the end of the plan. And the plan also targeted at generating 50 million job opportunities.

The Plan therefore, envisaged reorientation of the growth strategy in order to improve its employment content. Following the recommendations of the Special Group (Planning Commission, 2002a), a number of special programmes relating to different sectors, particularly in agriculture and related activities, small and medium enterprises, non-farm rural sector and social sectors like education and health, and also policy changes for faster development of sectors of high labour intensity like construction, tourism, information and communication technology and financial services have been envisaged.

No doubt, the rate of GDP growth has been higher in this period as compared to earlier quinquennium, but the employment content of growth also seems to have significantly improved from 0.15 during 1994-2000 to 0.48 during 2000-2005. Planning Commission sources indicate that about 47 million employment opportunities were created per year during the Plan period (2002-2007). This is quite close to the target of 50 million.

The Eleventh FYP (2007-12): This plan calls for more inclusive' growth and envisages employment as a central element of such growth.This plan targeted at creating 58 million job opportunities. The plan advocated an employment strategy of that could ensure rapid growth of employment and improvement in the quality of employment. However, the plan miserably failed in meeting the target.

The **Twelfth FYP** (2012-17): This plan tried to make the manufacturing sector a genuine engine of growth which could generate 100 million work opportunities by 2022. The plan also emphasizes focusing on skill development when the BJP government came.

The above account of the treatment of employment as a goal of development planning in India clearly indicates that its importance, and sometimes its centrality for reducing poverty and inequality, has been well recognized. Efforts have been made to reflect it in the growth strategy to the extent possible by laying special emphasis on the growth of sectors with higher employment potential; and by the introduction and implementation of several special employment programmes beyond the 1980s and the 1990s both for generating full time self and wage employment as well as short-term employment in public works for the underemployed like the following:

Prime Minister's Rozgar Yojana (PMRY): PMRY started in since **October 2, 1993** with the objective of making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activity.

*Employment Assurance Scheme (EAS):*Launched on **2nd October**, **1993,** the Employment Assurance Scheme envisages financial assistance to rural areas for guaranteeing employment to at least one man and one woman in rural family living below the poverty line.

Rural Employment Generation Programme (REGP):REGP, launched **in 1995** with the objective of creating self-employment opportunities in the rural areas and small towns, is being implemented by the Khadi and Village Industries Commission (KVIC).

*Swarna Jayanti Shahari Rozgar Yojana (SJSRY):*The Swarna Jayanti Shahari Rozgar Yojana which came into operation from **1-12-1997** aims to provide gainful employment to the urban unemployed or underemployed poor but does not include Prime Minister's Rozgar Yojana.

Swaranjayanti Gram Swarozgar Yojana (SGSY): After 20 years of its implementation, the IRDP was replaced by the SGSY in April, **1999.** SGSY aims at bringing the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self-Help Groups (SHGs) through a mix of bank credit and government subsidy.

*Sampoorna Grameen Rozgar Yojana (SGRY):*SGRY, launched in **2001**, aims at providing additional wage employment in all rural areas and thereby food security and improve nutritional levels. The SGRY is open to all rural poor who are in need of wage employment and desire to do manual and unskilled work around the village/ habitat. The programme is implemented through the Panchayati Raj Instutions (PRIs).

*National Food for Work Programme (NFWP):*In line with the NCMP, National Food for Work Programme was launched on 14 November **2004** in 150 most backward districts of the country with the objective to intensity the generation of supplementary wage employment. The programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is

implemented as a 100 per cent centrally sponsored scheme and the food grains are provided to states free of cost.

Commission set up to improve employability: A national commission named Arjun Sengupta Commission was set up to examine the problems of enterprises in the unorganised, informal sector in 2004 and device policies and programmes for strengthening the capacity of growth of this sector with high employment potential. Both these steps were a particularly important initiative since the bulk of the workforce is in the 'unorganised' or 'informal' sector of the economy and the critically poor, who belong to this sector, require assured employment on daily-wage basis.

National Rural Employment Guarantee Scheme (NREGS): A large scale employment guarantee scheme under the Mahatma Gandhi National Rural Employment Guarantee Act (Mahatma Gandhi NREGA) was introduced in India in a phased manner from February **2006**. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), guaranteeing at least 100 days of employment to every household in rural areas has been enacted with a stipulation of one-third participation by women. As on 1 January 2016), about 3.63 crore households have been provided employment of 134.96 crore person days under MGNREGA.

This Scheme is by far one of the largest social safety-net programmes launched anywhere in the developing world. This is also historic for we have for the first time a demand driven scheme across the country unlike the several supply driven schemes of the past. It is ambitious in its scope and size. The idea of inclusiveness is laid down here and also the idea that growth can be sustainable only when the poor contribute "to" growth and benefit "from" growth.

In order to improve generation of productive employment under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), the Intensive and Participatory Planning Exercise (IPPE) has been initiated in recent years.

Following are the recent initiatives for improving employment profile of the country:

i) ***Strengthening MGNREGA:*** The present BJP Government is keen to address the issue of low female LFPR and WPR and has launched various

legislation based schemes and other programmes/schemes where the emphasis is on female participation. For example, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), guaranteeing at least 100 days of employment to every household in rural areas has been enacted with a stipulation of one-third participation by women. During the current financial year (as on 1 January 2016), about 3.63 crore households have been provided employment of 134.96 crore person days under MGNREGA. Of the above person days, 76.81 crore person days (57 per cent) were availed of by women. The participation by women under the MGNREGA has been more than the stipulated 33 per cent since its inception.

ii) ***Organizing All Rural Poor Households by the NRLM*****:** The National Rural Livelihoods Mission (NRLM), a restructured version of the Swarnajayanti Gram Swarozgar Yojana (SGSY), has similarly been in operation since 3 June 2011. It aims at organizing all rural poor households and nurturing and supporting them till they come out of abject poverty, by organizing one woman member from each household into affinity-based women Self- Help Groups (SHGs) and their federations at village and higher levels by 2024-25. The mission has covered 1.7 lakh villages and mobilized around 24.61 lakh SHGs.

iii) ***Initiating Reforms in the Labour Market****:* In order to bring compliance in the system, catalyze job creation and ensure ease of doing business while safeguarding safety, health and social security of all workers in both the organized and unorganized sectors, the present Central Government as well as the State Governments have initiated reforms in the labour market.

iv) ***The Deen Dayal Upadhyaya— Grameen Koushalya Yojana (DDU-GKY):*** This is a flagship placement-linked skill development scheme for poor rural youth in the age group of 15 to 35 years. The mission of DDU- GKY is to reduce poverty by enabling poor households to access gainful and sustainable employment through employment that provides a regular wage. DDU-GKY

is also designed to be a major contributor to the Prime Minister's Make in India Campaign. During 2015-16, a total of 1.75 lakhs candidates have been trained and 0.60 lakh got placement.

v) ***Support to Training and Employment Programme (STEP)*:**This scheme intends to help women above the age of 16 by providing skills to them for their employability.

vi) **Nai Rosni**: This is a leadership training programme for women belonging to minorities.

vii) The government's thrust on skill development as well as 'Make in India' aims at improving employability and generating employment avenues. For that purpose, for skill development and economic empowerment of minorities, schemes like 'Seekho Aur Kamao' (Learn & Earn), Upgrading Skill and Training in Traditional Arts/Crafts for evelopment (USTTAD) and 'Nai Manzil'- a scheme to provide education and skill training to the youth from minority communities are in operation.

viii) **MANAS**: This scheme is for upgrading entrepreneurial skills of minority youths.

ix) **Prime Minister's Employment Generation Programme (PMEGP)** is aimed at generating self-employment opportunities through establishment of micro-enterprises in the **non-farm sector** by helping traditional artisans and unemployed youth.

Credit Guarantee Scheme for Micro and Small Enterprises covers collateral free credit facility (term loan and/or working capital) extended by eligible lending institutions including Non-Banking Financial Company (NBFC) to new and existing micro and small enterprises up to r 200 lakh per borrowing unit.

xi) ***Greening with Jobs*:** Environmental sustainability has been made a central objective of development strategy in India in Twelfth Five-Year Plan (2012–17) and Government of India has set up a comprehensive framework for skills development for green transition at the national level, targeting

key sectors. Several institutions have been created, including the Skills Council for Green Jobs in 2015, with the backing of the Ministry of New and Renewable Energy (MNRE) and the Confederation of Indian Industry (CII). The additional workforce required in the solar and wind energy sector in 2017-18 is estimated at 25,481. The objective of the Council is to identify skills needs in the areas of renewable energy, energy efficiency and waste and water management. Based on the identification of skills needs in these sectors, 26 new TVET courses have been developed for occupations ranging from water treatment plant helper to solar PV project manager and improved cooking stove installer (NISTADS, forthcoming). Private institutions have also developed 70 courses oriented towards environmental sustainability (for example, in apparel and footwear manufacture and banking) (ILO, 2018a).

Special Packages in leather, footwear and textile sector: In December 2017, a special package for employment generation in leather and footwear sector was approved by the Government which is likely to help exports from these sectors., with an outlay of ₹ 2600 crore over three financial years 2017-18 to 2019-2020. The scheme would lead to development of infrastructure for the leather sector, address environment concerns specific to the sector, facilitate additional investments, employment generation and increase in production.

The Government has in December 2017 approved the scheme for Capacity Building in Textile Sector (SCBTS). The scheme will be applicable from 2017-2018 to 2019-2020 with an outlay of ₹ 1,300 crore. It shall have the National Skill Qualification Framework (NSQF).

What is evident from the above discussion is the fact that employment growth in India over 70 years has not been impressive at all, despite launching different programmes and policies initiated by government.. The bleak and sad employment situation (the loss of 550 jobs everyday in the last 2011-17) and the rising unemployment, India’s claim of reaping the demographic dividend is most likely to be frustrated as the years go by. So a tremendous challenge on employment generation looms large.

4.5 Role of Mgnregs for Gainful Employment in Rural Areas

Despite several policies and programmes to tackle unemployment problem, the desired result did not come. It was then realised that a renewed effort is needed to mitigate the distress of day-to-day employment seekers in the country. This led to a major initiative of the post-2000 period by way of the enactment of the National Rural Employment Guarantee Act (NREGA) in 2005 to guarantee work up to 100 days of employment in a year to every household in rural areas in selected poorer districts (now it covers all the 644 districts) of the country, with a stipulation of one-third participation by women— a first ever demand-driven scheme as well as the largest social safety-net programme anywhere launched in the world. The idea of inclusiveness is laid down here and also the idea that growth can be sustainable only when the poor contribute "to" growth and benefit "from" growth.This step was particularly an important initiative since the bulk of the workforce is in the 'unorganised' or 'informal' sector of the economy and the critically poor, who belong to this sector, require assured employment on daily-wage basis. As on 1 January 2016, about 3.63 crore households have been provided employment under MGNREGA.

This has been possible because MGNREGS treats employment as right. As NCAER study of 2015 shows that this programme helped in lowering overall poverty by almost 32 per cent between 2004-05 and 2011-12 and prevented almost 1.40 crore people from falling into the poverty trap. Besides, average wage per person/per day in 2013-14 came to ₹132.59 which is double the average wage rate paid in 2006-07. A large number of women got the first opportunity to earn income in cash and having a bank account. It has also reduced the dependence on money lenders. On average five crore households have been provided with every year since 2008. The SCs and STs have been accounted for 51 per cent of total person days employment generated.

The review of M(ahatma)G(andhi)NREGA (its rechristened name since 2009) suggested many weaknesses like: (i) non-provision of work on demand; (ii) lack of transparency in calculating wages based on schedule of work; (iii) non-payment of minimum wages; (iv) non-payment of wages with the stipulated 15 days of work; (v)

use of contractors in spite of prohibition; (vi) non-payment of employment allowance; (vii) non-provision of worksite facilities, etc. Cases of 'fudging' of muster rolls to 'sell' entitlements as well as widespread corruption are also reported. Notwithstanding these instances, the programme has helped create many assets in the areas of: (i) water conservation; (ii) irrigation; (iii) road connectivity; (iv) land development; and 'others'. Of all these, water conservation works has accounted for more than '50 percent' of physical achievements over the five year period of 2007-11. It can therefore be conceded that given its scale of operations amidst poor management capability of village councils (who are supposed to be responsible for its implementation), MGNREGA programmes are better implemented than similar programmes in the past.

In order to improve generation of productive employment under the MGNREGA, the Intensive and Participatory Planning Exercise has been initiated in recent years.

4.6 Reforms and Employment

There is no denying the fact that this new economy policy is the policy of contraction of employment. This has come to be known exit policy. It is because of disinvestment policy, 20 per cent of the labour force lost jobs during the last decade of the 20th century. Under voluntary retirement scheme (VRS), 1.84 lah employees during 2001-2014 had to sacrifice jobs.

Employment and wages are probably the major channels through which the social impact of increased openness and globalization is felt.Let us see as to what has happened to employment generation during almost three decades. The overwhelming majority of the country's labour force works in the unorganized or informal sector, with low earnings and high insecurity. That central fact has not changed over many decades. The following points could be mentioned to describe the impact of economic reforms on unemployment in India.

i) Since the labour force has grown faster than employment in the last two and a half decades, the unemployment rate has increased from 6.1 per cent in 1993 to 7.3 in 1999-2000 and further to 8.28 per cent in 2004-05, **reaching an all time high of 9.40 percent in 2009**. Unemployment Rate in India averaged 7.32 percent from 1983 until 2013. Unemployment Rate

in India decreased to 4.90 percent in 2013 (a record low) from 5.20 percent in 2012.

ii) Far as the status of the employment is concerned, the trend in rural areas is clearly that of a decline in self-employment and an increase in casual workers for both males and females.

iii) All the Rounds from the 50th to 66th Rounds give a long-term trend in employment and unemployment for the last two decades and one striking fact emanates from the trend is the slow shift in the composition of the labour force from agriculture to non-agriculture, especially in comparison to other developing countries.

iv) The NSSO 55th Round had shown a deceleration in the growth of employment from 2 per cent per annum in the period 1983 to 1993-94 to less than 1 per cent per annum in the period 1993-94 to 1999-2000 by usual status and also an economy-wide decrease in employment elasticity from 0.41 to 0.15.

v) The expansion of employment in public manufacturing sector actually fell from 1.8 million in 1995 to 1.0 million in 2008, while in private organized units employment stagnated at around 5 million.

vi) Across gender, the growth rate of male employment is 1.38 per cent per annum compared to a paltry 0.26 per cent per annum for females. This can be recorded as first evidence **of jobless growth** of the Indian economy in the post-liberalization period.

vii) But during 1999-2005, there was an increase in self-employment and a decline in the share of casual employment. During the same period, the incidence of unemployment on current daily status (CDS) basis increased from 7.31 per cent to 8.28 per cent.

viii) The evidence suggests that there is an inverse relationship between GDP growth and employment growth. Overall, the employment trends during 2005-2008 do suggest a slowdown in employment generation and therefore a return to jobless growth seen in the 1990s. The year 2009 was extremely a bad year. It faced the worst drought of the last three decades. Global financial crisis and the recession started in 2007 also led to a deceleration in aggregate GDP growth and contraction in employment growth. Besides,

the years 2008 and 2009 also witnessed the worst spell of food price inflation which stayed in double digits. As a whole, we find **jobless growth** during 1993-2000 and during 2005-2008 (the lowest ever growth rate of employment and almost no non-farm diversification) except the employment boom during 2000-2005.

ix) A preliminary reading the NSS 66th round (2009-10) estimate as released by GoI in 2011 suggests that there has been a very little and slow employment growth –surprising drop in the labour force participation rate (especially among females) — over the five years since 2004-05 largely due to a sharp decline in female labour force participation (**Table 4.2**).

Table 4.2: Changes in Labour Force Participation Rates in Rural India (UPSS basis)

Year	Male	Female	Person
1983	55.5	34.2	45.1
1993-94	56.1	33.1	44.9
1999-2000	54.0	30.2	42.4
2009-10	55.6	26.5	41.4

Source: *NSSO surveys on employment/ unemployment, various years.*

For growth to be inclusive it must create adequate livelihood opportunities and add to decent employment. According to the official data, a paltry 6 per cent of the country's labour force was employed in decent, organized sector jobs in 2008, with a third of these in the public sector, including government. The remainder, the overwhelming majority, toiled in casual. ill-paid and insecure jobs.Clearly, the critical priority is to increase good job opportunities through strong labour-intensive growth and improve the skill levels of the massive labour force. It is praiseworthy that the Twelfth Plan Approach lays greater stress on skill building

Economic Reforms and Rural Employment Situation in India:

1. The rural employment scenario in India worsened gradually ever since adoption of globalization policies.
2. In regard to rural non-Farm Employment, the situation for employment in the rural non-farm sector that encompasses all non-agricultural activities:

mining and quarrying, household and non-household manufacturing, processing, repair, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises is grave and gloomy.

The employment situation in the rural non-farm sector has deteriorated in the 1990s and beyond. Manufacturing, the most important non-farm sector is marked by a decelerating rate of growth of employment during the 1990s and beyond. Though mining, utilities, and community services account for only a small proportion of rural employment; employment growth in these sectors was negative. Construction, trade, transport, and business services emerged as the most important sources of rural employment growth in the 1990s and beyond These account for around 11 per cent of rural employment in the country.

3. The annual growth rate of rural employment considering male and female workers together comes to a low level of 0.86% during the period of 1993-94 to 2009-10 from 1.60% during 1983 to 1993-94. A vast majority of the states of India suffered decline in growth rate of employment during the period of globalization compared to the pre-globalisation period. In 14 out of 15 major states, the growth rate of rural employment during 1993-94 to 2009-10 was lower than the same during 1983 to 1993-94.

4. Females have been subjected to discrimination in the rural labour market, but also such discrimination further widened during the period of globalization.

5. The period of globalization is also characterized by worsening of employment quality, especially for the rural females. An important indicator of worsening of employment quality has been increasing casualisation of the workforce. Both for rural male and female workers, the incidence of casual employment increased while the incidences of regular employment and self-employment declined.

6. Examining the sectoral distribution of rural workers, we find that there is still clear predominance of the agriculture sector as provider of employment in rural areas. In 2009-10, as high as 68 per cent of rural workers are dependent on the agriculture sector for livelihoods. But the pace of employment diversification by the rural workers got accelerated in recent

years so that nine out of 15 major states of India belonged to the category of 'high' diversification states in 2009-10.

7. It is true that the growth rates of both agricultural and non-agricultural employments in rural India declined during the post-globalization period compared to the pre-globalization period.

8. Following the All-India pattern, majority of the states suffered decline in growth rates of both agricultural and non-agricultural employments during the period of globalization. The rural workers were compelled to diversity their employments (moving away from agriculture to non-agriculture) out of distress economic conditions. This is 'distress-driven' phenomenon.

9. There is no denying the fact that the growth rate of GSDP in India increased appreciably during the period of globalization compared to the same during the pre-globalisation period. This high growth of GSDP has been driven more by better performance of the non-agricultural sector, especially sub-sectors like transport, storage, etc., construction, wholesale and retail trade, other services and manufacturing. However, this period also witnessed very low growth rate of employment in India. As a consequence, the value of employment elasticity is reduced to a low level of 0.23 during 1993-94 to 2009-10 from its value of 0.38 during the pre-globalisation period (1983 to 1993-94). Such a development seems to suggest that India has been marching forward along the path of 'jobless growth' in the era of globalization. This is also evident from employment-unemployment data for 2017-18.

4.7 Informal Sector and Informalisation of Labour

4.7.1 Informal Sector and Informal Labour

Ever since the initiation of the liberalization policies in the early nineties, informalization of jobs has become a matter of concern. Growing competition combined with increased market opportunities and limited resources have led to the emergence of an informal sector.

The informal sector is often equated with precarious, low- productivity, poorly remunerated employment in the developing countries. The National Commission for

Enterprises in the Unorganised Sector (NCEUS) in India has defined the informal/ unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers. The typically include food preparation and sale, petty trade, repair activities, scavenging and manufacture. The NCEUS also defined informal labour as those labours whose use is not governed by state regulations or by collective agreements between workers and employers.

Informal labour is the dominant form of labour in India. They are to be found in all production sectors of the economy: in agriculture, in industry, and in services.

In India, 93 per cent of all labours are engaged in informal economy, with a net contribution of about 63 per cent of GDP. The vast majority of Indian women workers— more than 90 per cent— are in the informal economy. In any case, informal workers barely have had any social security. By most measures informal sector jobs are much worse than formal sector ones—wages are, on average, more than 20 times higher in the formal sector

4.7.2 Informalisation of labour force

Informalisation of labour force refers to the situation wherein there is a continuous decline in the percentage of workforce in the formal sector and a simultaneous rise in the percentage of workforce in the informal sector with low quality of employment. In India, there has been a massive upsurge of the informal sector employment during 1989-2015. A small part of the labour force has found formal employment in India. This trend as found in India's labour market — informalisation of labour force— suggest'de-institutionalisation' of labour market.

4.7.3 Reasons for the informalisation of workforce in India

Literature indicates that labour market rigidities, illiteracy and poor skill levels of the workers, increasing competition from imports, decline in formal employment opportunities, flexibility of employment, outsourcing, contractual services, growth of telecommunications and IT services, indirectly economic reforms which opened up market in India are the main contributory factors inducing creation of informal employment and decline of formal employment opportunities in India.

4.8 Social Security Measures in India

Social security is the protection which society provides for its members against the economic and social distress. The State bears the primary responsibility for developing appropriate systems for providing protection and assistance to its workforce and their families.

4.8.1 Social Security Laws in India (for the organized sector)

In India Social security is treated as part of labour law. The principal social security laws enacted in India are the following:

For detail see Section 2.5.4(A)

(a) The Workmen's Compensation Act, 1923 (WC Act):

(b) The Employees' State Insurance Act, 1948:

(c) Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF & MP Act) :

(d) Maternity Benefit Act, 1961(M.B. Act).:

(e) The Payment of Gratuity Act, 1972 (PG Act):

(f) Employees' Pension Scheme 1995:

India has yet to have a fully developed social security system on the pattern of the developed world. There is a need to develop an integrated system of social security so as to avoid complication from which the present system suffers.

4.8.2 Social Security for the Unorganised Sector

The existing social security arrangements in the unorganized sector can be broadly classified into five groups as follows:

- Central Legislations including Welfare Fund
- Social assistance through welfare funds of Central and State governments
- Social insurance schemes

- State Legislations including Welfare Funds; and
- Public initiatives

4.9 Conclusion

Unemployment is an evil. Social insecurity in the organized and unorganized sector, in particular is a matter of grave concern. But what is evident from the above discussions is that the employment growth in India has not been impressive over the long years at all. The expansion of employment without a corresponding proper look at the social security and related issues is bound to frustrate the objective of mitigating unemployment in India. India still has to traverse a considerable distance to realize its ambition on growth and employment.

4.10 Key Terms Simplified

Unemployment Measures in India: These are – (i) Usual Status Unemployment (UPSS), (ii) Usual Principal & Subsidiary Status (UPSS) Approach (iii) Current Weekly Status (CWS) Unemployment Measurement and (iv) Current Daily Status (CDS) unemployment measurement.

UPS Unemployment: A person, as per this concept, is considered unemployed if he is available for work but could not get work for major part of the year.

UPSS Unemployment: This category of unemployed includes those who could not even get Work on a 'subsidiary basis' during a year.

CWS Unemployment: A person is treated as unemployed by this method, if a person who is available for work, does not find work even for one hour during the reference week.

CDS Unemployment: This approach measures unemployment in terms of 'person days' during the reference week.

MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act(MGNREGA*)* is one of the important schemes which ensures participation by women in the economic activity by stipulating minimum 33 per cent participation by

women. There has been highest ever budget allocation of ₹ 48000 crore under MGNREGA during 2017- 18. About 4.6 crore households were provided employment totaling 177.8 crore person days during 2017-18 as on 14th January, 2018. Out of this, 54 per cent were generated by women, 22 per cent by Schedule Castes and 17 per cent by Schedule Tribes. Trends from 2013-14 to 2017- 18 show that participation by women in the total person days generated has been more than 50 per cent. Further, the scheme has been converged with ICDS scheme for construction of AWCs.

Social Security: Social security is the protection which society provides for its members against the economic and social distress. The State bears the primary responsibility for developing appropriate systems for providing protection and assistance to its workforce and their families.

Make in India: The Make in India programme is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure.

The Rashtriya Swasthya Bima Yojana (RSBY): RSBY is a scheme under the *Unorganized Workers' Social Security Act 2008*. It is a smart card-based cashless health insurance scheme, including maternity benefit, which provides a cover of ₹ 30,000 per family per annum on a family floater basis to below poverty line (BPL) families in the unorganized sector. It is proposed to extend the RSBY to all unorganized workers in a phased manner.

4.11 Questions with Answer Hints

Questions Carrying 2.5 marks

1. **What is meant by unemployment?**

   [Ans: Unemployment is a phenomenon when 'people who want to work do not find work at a given wage rate' due to lack of availability. It surfaces in many forms like: structural, frictional, cyclical, seasonal, etc.]

2. **Mention different types of unemployment?**

   [Ans: Voluntary, involuntary, frictional, disguised, cyclical, seasonal, and structural.]

3. **What is the nature of unemployment in India?**

   [Ans: The nature of unemployment in India is definitely structural.]

4. **What does elasticity of employment measure?**

   [Ans: Elasticity of employment measure the sensitivity of employment growth to the GDP growth.]

5. **What is jobless growth?**

   [Ans: This implies that the growth rate in the labour force is greater than the growth rate in employment. And this has resulted in an increase in the unemployment rate.]

6. **What is Deen Dayal Upadhyaya— Grameen Koushalya Yojana?**

   [Ans Hints: A flagship placement-linked skill development scheme for poor rural youth in the age group of 15 to 35 years.]

7. **What is meant by informal sector? What is informal labour?**

   [Ans: See Section 47.1]

8. **What is informalisation of labour force?**

   [Ans: Informalisation of labour force refers to the situation wherein.here is a continuous decline in the percentage of workforce in the formal sector and a simultaneous rise in the percentage of workforce in the informal sector with low quality of employment. In India, there has been a massive upsurge of the informal sector employment during 1989-2015.]

9. **A labour force survey yielded the magnitude of employed and unemployed as 415 million and 13 million respectively. What is the unemployment rate?**

   [Ans: Unemployment rate is calculated as a percentage of 'unemployed to the labour force'. Here Unemployment rate= [13/{415 + 13}]×100=3 per cent.]

9. **What is social security?**

   [Ans: Protection which society provides for its members against the economic and social distress.]

10. **How does the approaches of earlier UPA government and that of present NDA government differ on social protection ?**

    [Ans: see Section 4.8.2]

Questions Carrying 5 marks

1. **What are the major causes of unemployment in India?**

   [Ans Hinits: Causes are: jobless growth, increase in the labour force. inappropriate technology, etc.]

2. **What are the four approaches on which the 'employment and unemployment surveys' (EUSs) are conducted by NSSO in India? What is the rationale behind these? approaches?**

   [Ans: In India (EUSs) are being conducted by the NSSO (i.e. National Sample Survey Organisation) in a periodicity of once in 5 years since 1972-73. These surveys are also therefore called as quinquennial EUSs. The EUSs adopt four type of approaches viz. (i) Usual Status Unemployment Measure (ii) UPSS Approach (iii) CWS unemployment Measure and (iv) CDS unemployment Measure.

   The rationale behind these approaches is to capture the long term status of employment as well as that of the short term.].

3. **What is the difference between WFPR and LFPR?**

   [Ans: The WFPR (workforce participation rate) in a country is represented as the proportion of working population to total population. This is also therefore alternatively called as 'worker population ratio' (WPR).

   While the LFPR (labour force participation rate) is defined as the section of 'working plus work-seeking population' in the age-group of 16-64 expressed as a percentage of the total population. It is usually expressed as the number of persons 'employed plus unemployed' per 1000 persons in the NSSO reports. Notice that these rates would differ depending on which class of workers we consider i.e. whether US or UPSS or CWS or CDS. For India, in 2015-16, the LFPR by UPS (i.e. usual principal status) classification, for 'total persons' [i.e. males and females combined] was 50.3.By gender, it was 75 percent for males and 24 percent for females i.e. a huge difference of more than 3 times for males than females. The WFPR for 'total persons' was 48 percent (72 percent for males and 22 percent for females). The unemployment rate was 5 percent for total (by gender, it was 9 percent for females and 4 percent for males). The disparity between

males and females is indeed glaring. fHence the question comes which policies to bridge the gender-gap is needed. Relatively, the LFPR for females is higher for the North Eastern and the Southern states and low for the Northern states.]

4. **Mention some of the Employment Strategies up to Eleventh FYP.**

   [Ans:Emphasis was placed on both the growth of the economy and restructuring of output composition of growth prior to 11th FYP. An employment strategy that could ensure rapid growth of employment and improvement in the quality of employment was also emphasized during the 11th FYP.]

5. **What are the recent initiatives for improving employment in India?**

   [Ans Hints: Strengthening MGNREGA, Organizing All Rural Poor Households by the NRLM initiating reforming labour market etc. are recent initiatives.]

6. **Write a brief note on the estimates of unemployment in Post-reform period.**

   [Ans: See Section 4.3.6]

Questions Carrying 10 marks

1. **Name some of the major employment promotion schemes launched in 1990s onward?**

   (See Section titled Employment Promotion Schemes)

2. **What are essential features of Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGS)?**

   [Ans: See Section 4.5]

3. **What are the reasons for the informalisation of workforce?**

   [Ans in brief: Labour market rigidities, illiteracy and poor skill levels of the workers, increasing competition from imports, decline in formal employment opportunities, flexibility of employment, outsourcing, contractual services, growth of telecommunications and IT services, indirectly economic reforms which opened up market in India are the main contributory factors inducing creation of informal employment and decline of formal employment opportunities in India.]

4. **Mention some of the principle social security laws or legislations enacted in India.**

   [Ans: See Section 4.8.1 & 4.8.2]

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Unit 5 □ FISCAL POLICY

Structure

5.1 Objectives

5.2 Introduction

5.3 Objectives of Fiscal Policy

5.4 Fiscal Policy Reforms since 1991

5.5 Fiscal Responsibility in India: FRBM Act

5.6 Principles of Fiscal Federalism

5.7 Impact of Fiscal Reforms on Fiscal Consolidation

5.8 The Finance Commission

5.9 Conclusion

5.10 Key Terms simplified

5.11 Questions with Answer Hints

Questions Carrying 2.5 marks

Questions Carrying 5 marks

Questions Carrying 10 marks

5.12 References

5.1 Objectives

After reading this unit, you will be able to:

- understand the meaning of fiscal policy;
- know the aims and objectives of fiscal policy;
- analyse fiscal policy reforms since planned economic development in India;
- get a glimpse of the principles of fiscal federalism

- have an idea about FRBM ACT and some of the main features of the FRBMA Rules 2004;
- analyze the impact of fiscal deficits on India's economic prospects; and
- impact of fiscal reforms on fiscal consolidation

5.2 Introduction

Fiscal policy deals with the taxation and expenditure decisions of government. Monetary policy deals with the supply of money in the economy and the rate of interest. These are the main policy approaches used by economic managers to steer the economy. In most modern economies, the government deals with fiscal policy while the central bank is responsible for monetary policy. Fiscal policy is composed of several parts. These include tax policy, expenditure policy, investment or disinvestment strategies, and debt or surplus management. Fiscal policy is an important constituent of the overall economic framework of a country and is intimately linked with its general economic strategy. Fiscal policy is not only about correcting fiscal imbalances but also aims at developing and strengthening relevant institutions and designs of expenditure programmes.

Fiscal policy also feeds into economic trends and influences monetary policy. When the government receives more than it spends, it has a surplus. If the government spends more than it receives, it runs a deficit. To meet the additional expenditures, it needs to borrow from domestic or foreign sources, draw upon its foreign exchange reserves or print an equivalent amount of money. This tends to influence other economic variables. On a broad generalization, excessive printing of money leads to inflation. If the government borrows too much from abroad, an external shock (such as an exchange rate depreciation or inability to roll over the debt due to perceived lack of ability to repay) may lead to a debt crisis. If it draws down on its foreign exchange reserves, a balance of payments (BoPs) crisis may arise. Excessive domestic borrowing by the government may lead to higher real interest rates and the domestic private sector being unable to access funds resulting in the 'crowding out' of private investment. Sometimes a combination of these can occur. In any case, the impact of a large deficit on long-run growth and economic well-being is negative. Therefore, there is broad agreement that it is not prudent for a

government to run an unduly large deficit. However, in case of developing countries, where the need for infrastructure and social investments may be substantial, it is sometimes argued that running surpluses at the cost of long-term growth might also not be wise. The challenge then for governments in most developing countries is to meet infrastructure and social needs, while managing the government finances in a way that the deficit or the accumulating debt burden is not too great. It is difficult to theoretically or empirically characterize an optimal level of public debt in terms of welfare or social criteria. This would depend on the priorities and concerns of government and the society. In the circumstances, policymakers and researchers largely focus on the sustainability of public finances and management of public debt.

5.3 Objectives of Fiscal Policy

Fiscal policy in a country like India plays a multidimensional role. Through fiscal policy, the government creates and sustains the public economy; at the same time it is an instrument for reallocation of resources according to national priorities, redistribution, promotion of private savings and investments, and the maintenance of stability. Thus one can list the following objectives of fiscal policy. These are: (i) efficiency of resource mobilization for planned development by increasing savings and capital formation ;(ii) allocational efficiency;(iii) ensuring equity and justice so that tax expenditure programme is designed in such a way as to minimize or remove the bad distributional consequences, and (iv) maintenance of internal price stability.

5.4 Fiscal Policy Reforms Since 1991

India practices fiscal federalism with distinct demarcation of powers between the Centre and state governments. The 73rd and 74th amendments to the Constitution in the early 1990s were watershed developments in India's federal structure, its governance and accountability. The new regime under Modi government has focused on rebalancing the federal fiscal architecture with greater stress on cooperative and competitive federalism with the belief that the reform agenda of both the Centre and states would be calibrated in a coordinated manner in the spirit of cooperative

federalism. However, since 1991, both the Centre and states initiated significant fiscal reforms as an integral part of the ongoing initiatives in the aftermath of balance of payments crisis in 1990. The fiscal reforms aim at improving efficiency, productivity, and competitiveness of Indian industries and imparting dynamism to the overall growth process.

The basic objective of fiscal reforms since 1991 has been to reduce fiscal deficits to sustainable levels by expenditure management and resource mobilization through rationalization of taxes and duties, widening of tax base, modernization of tax administration, focusing attention to contingent liabilities, and improving Centre-state fiscal relations.

CENTRAL TAX REFORMS

Direct taxes

In pre-reform India, the structure of taxation was very unbalanced. Some 80 per cent of total revenues came from customs and excise taxation and less than 10 per cent of revenue from personal and corporate income tax. It was customary in the summer of 1990. Customs and excise duties were extremely complex then, with numerous rates, active political lobbying about each tariff line, and enforcement difficulties. Only 6 million individuals paid income tax.

India's fiscal policy in the phase of planned development commencing from the 1950s to economic liberalization in 1991 was largely characterized by a strategy of using the tax system to transfer private resources to massive investments in the public sector industries and also achieve greater income equality. The result was high maximum marginal income tax rates and the consequent tendency of tax evasion. The public sector investments and social expenditures were also not efficient. Given these apparent inadequacies, there were limited attempts to reform the system in the 1980s.

Following the BoP crisis of 1991, the government commenced on a path of economic liberalization whereby the economy was opened up to foreign investment and trade, the private sector was encouraged and the system of quotas and licences was dismantled. Fiscal policy was re-oriented to cohere with these changes. The system has been simplified to correct the fiscal imbalances to have better revenue and to rescue the economy from the quagmire of fiscal deficits of 8.4 per cent of GDP

accumulated in 1990-91, in view of the high rate of inflation and seriously distressed balance of payments.

The Tax Reforms Committee (1991 and 1993) headed by Raja Chelliah provided a blue print for reforming both direct and indirect taxes. Its main strategy was to reduce the proportion of trade taxes in total tax revenue, to increase the share of domestic consumption taxes by converting the excise into a VAT and to enhance the contribution of direct taxes to total revenue. It recommended reducing the rates of all major taxes, minimizing exemptions and deductions, simplifying laws and procedures, improving tax administration, and increasing computerization and information system modernization.

As a part of the subsequent direct tax reforms,

(a) in 1992-93, personal income tax slabs were down to three—20, 30, and 40 per cent. In 1997-98, these rates were brought down further to 10, 20, and, 30 per cent. Though, in subsequent years, the need for revenue has led to a levy of surcharge and cess on these rates, the three rates have continued till date.

(b) in 1997-98, the corporate tax rate was reduced to 35 per cent while it was unified at 40 per cent in 1994-95. In the 2005-6 Budget, the corporate tax rate was reduced to 30 per cent and this has been retained till date. Since 2010-11, the surcharge and cess is being gradually eliminated so that the base rate and the overall rate coincide with 30 per cent. To this end, the surcharge has been reduced.

(c) the Union Budget 1997-98 was a landmark in fiscal reforms in attempting to align Indian tax rates with those in other developing countries;

(d) financial assets were removed from the imposition of wealth tax and the maximum rate of wealth tax was reduced to 1 per cent;

(e) A Minimum Alternative Tax (MAT) was introduced in 1996-1997 to broaden the tax base for corporate by moderating the effect of tax incentives. It required a company to pay a minimum of 30 per cent of book profits as tax, that is, the profit reported by a company by its shareholders. The overall rate of the MAT levy was enhanced from11.33 in 2005-6 to 20 per cent in 2011-12 thus ensuring a threshold level of tax payments by all corporate, irrespective of tax incentives.

(f) the maximum marginal tax rate for personal income was again reduced to 30 per cent and that of corporate income to 35 per cent for domestic companies and 48 per cent for foreign companies in 1997-98, and

(g) further attempts to expand the tax base and increase revenues were the introduction of the securities transaction tax (STT) in 2004 and the fringe benefit tax (FBT) in the budget of 2006.

(h) In 2015-16, the levy of wealth tax was abolished and replaced it with an additional surcharge of 2 on the super-rich with a taxable income of over r 1 crore. Norms for Mandatory Quoting of PAN were also rationalized and broadened. Mechanisms to prevent tax disputes and to provide speedy disposal was strengthened. Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act 2015 was enacted and Rules there under have been notified.

However, the emphasis on the direct tax front has been to continue with moderate tax rates, widening the tax base, simplifying and rationalizing tax rules and procedures and reviving the capital market. These measures, along with rapid growth in GDP, have resulted in a rapid rise in the direct tax to GDP ratio.

Direct Tax Legislation

In order to revise, consolidate, and simplify the language and structure of direct tax laws, the Direct Taxes Code Bill, 2010 was introduced in the Parliament in August 2010, and is currently in vogue. It consolidates and integrate all direct tax laws by replacing both the Income Tax Act,1961, and the Wealth Tax Act, 1957. This is to build up for a strong direct tax policy regime for strengthening the tax administration, integrating IT in the functioning of the tax administration, and reducing tax litigation.

Indirect Taxes

The year 1991 marks a watershed in the history of indirect taxes in India. Before reforms in indirect tax system, the indirect tax structure was not conducive to high growth as it engendered a high-cost economy riddled with tax cascading. It also did not raise adequate revenues commensurate with the tax rates and tax efforts, thus having a deleterious effect on the health of public finance.

With the inception of reforms, the situation has changed altogether. With respect to indirect taxes, the focus was on reducing the multiplicity of duty rates, moving towards ad valorem rates, rationalizing the tax structure etc. In line with these,

(a) in the 1998-99 Budget, 11 major ad valorem duty rates were reduced to three.

(b) custom duty rates were also rationalized and simplified from seven to five and ad valorem rates ranging from 5 per cent to 40 per cent; and

(c) the number of major duty rates was also brought down from 22 in 1990-1991 to 4 in 2003-2004.

These reforms resulted in reduction of peak rate of custom duty in a phased manner from 150 per cent in 1991-92 to 10 per cent in 2004-05 to make Indian industry globally competitive.

In 2014-15, basic customs duty was increased on certain goods. Service tax on NDA government-initiated various yojanas were exempted.

Introduction of GST:

Since goods and services tax (GST) has the potentiality to create one Indian market, expand the tax base, and foster cooperative federalism, its introduction will be healthy for the Indian economy. The GST will mark a very significant improvement over the earlier system because it will integrate the tax base across the value chain of supply of both goods and services in the economy. Not only will this enable the taxation of each stage of the value chain at a uniform rate, it will also enable the seamless pass through of input tax credit so that the incidence is effectively borne by final consumption of goods and services. Nay, by synchronizing the tax efforts of the central and state governments, the GST network will bring the Centre and all the states on a common electronic platform with regard to registration, return filing, and tax payments and host a wealth of data on taxpayer activity and behaviour. With the permanent account number (PAN) being a common business identifier, exchange of information across tax jurisdictions will enable much more effective compliance management than is feasible at the then time.It is well-accepted that such a tax system minimizes distortions in economic choice.

Realizing this earnestly, one important development and initiative in 2014-15 was the introduction of the Constitution (122nd Amendment) Bill in the Lok Sabha

on 19 December 2014, which provides for levy of a goods and services tax (GST) on all goods or services except those specified. The Government, in partnership with the States, that ushered in long-awaited goods and services tax (GST) with effect from 1 July 2017 during a special midnight session of the Parliament is thus an important indirect tax reform measure for improving tax efficiency and reducing the cost cascading prevalent in the earlier indirect tax regime. This will have a significant bearing on the resource-raising potential of state governments. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. It follows a multi-stage collection mechanism. In this, tax is collected at every stage.

There are various forms of GST which have been introduced, namely,

- SGST (State GST): The SGST will be handled by the state government in which all the taxes collected under the state provision will come under the SGST.
- CGST (Centre GST): CGST is a central GST which will be collected by the Central government on account of every transaction.
- IGST (Integrated GST): Integrated GST will be charged whenever a transaction occurs between two states with a share of state and centre both with a specified proportion decided.

Over the past four decades, the value added tax (VAT) has been an important instrument of indirect taxation, with 130 countries having adopted it, resulting in one-fifth of the world's tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Federal countries like Canada, New Zealand, and Australia have successfully adopted the GST into their structure. Implementation of a comprehensive GST in India is expected, *ceteris paribus*, to lead to efficient allocation of factors of production thus bringing about gains in GDP and exports. This would translate into enhanced economic welfare and higher returns to the factors of production, viz. land, labour, and capital. A NCAER study commissioned by XIII Finance Commission has stated that implementation of a comprehensive GST across goods and services is expected, *cet par*, to provide gains to India's GDP somewhere within a range of 0.9 to 1.17 per cent.

In a historic tax reform, the introduction of the GST is thus a significant step in the field of indirect tax reforms in India, subsuming almost all major indirect taxes

like Central Excise Duty, Service Tax, VAT, CST, entertainment tax, Octroi, luxury tax, a large number of cesses/surcharges and various other state and central levies on goods and services.By subsuming a large number of central and state taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer's point of view, the biggest advantage is in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25 per cent-30 per cent. Introduction of the GST is also expected to make Indian products competitive in domestic and international markets. Studies show that this instantly spurs economic growth. Because of its transparent character, it is expected that the GST would be easier to administer. Economic Survey 2017-18 articulates that recent experience with the GST has shown that vertical cooperation between the center and states—Cooperative Federalism—has brought transformational economic policy changes. Besides, GST revenue collections are surprisingly robust: In the first five months of GST, the actual collections by all categories (SGST, CGST, IGST and Cesses) taken together are running at a rate of r 10.5 lakh crore (five-month average, annualized).

MODVAT

A modified value added tax called MODVAT introduced in 1986 has undergone significant changes and is presently known as CENVAT (centre value added tax) and extends to almost all commodities and input tax credit is available across goods and services.

State Tax reform

Despite the reforms in central taxes, even after the economic reforms of 1991, state government tax reforms were inadequate and sporadic. A major move in this direction was the coordinated simplification of the state sales tax system in 1999. This eventually led to the introduction of a VAT in 21 states in 2005.

Service tax

The tax net was widened in 1994-95.The coverage of the service tax has been widened to ensure greater equity and diversity in the tax system, as services grows in the GDP.

Fiscal Incentives

India provides fiscal incentives for the development of industry, infrastructure, and technology. Tax holidays up to 15 years are allowed for industries set up in

backward regions and for infrastructure projects set up anywhere in India. Incentives are given to exporters, for R &D activities and units located in SEZs, EPZs, and science and technology parks. State also provided a number of incentives such as capital subsidy, tax breaks, and concessional land and power.

India allows WTO-compatible tax exemption for exports, lower interest rates for export credits. Exporters of food grains are given WTO-compatible subsidies.

Tax Administration

In order to raise revenue and to improve the ease of doing business, a non-adversarial and non-intrusive tax regime is being promoted through modernization of the business processes of tax administration. On the back of administrative reforms in taxation and passage of the Insolvency and Bankruptcy Code (IBC), India jumped thirty places to break into the top 100 for the first time in the World Bank's Ease of Doing Business (EODB) Report, 2018. Extensive use is being made of information technology for e-enablement of taxpayer services and filing of income tax returns, various forms, audit reports, etc. Statements of tax deduction at source have been made compatible with electronic filing and computerized processing. The Centralized Processing Centre for income tax returns at Bengaluru and Centralized Processing Centre –TDS (tax deduction at source) at Vaishali, Ghaziabad have also been made fully functional. These measures would enable the tax administration to function in a more efficient and automated environment and reduce the compliance burden on taxpayers.

Public Debt Management

The combined internal public debt (Centre+ states) as a percentage of GDP increased by 13 percentage points from 64 per cent as end-March 1991 to 77 per cent at end-March in 2009-10. So the active debt management strategy came to the fore by minimizing refinancing risk and avoidance of issuing floating rate. Following internal and external sector policies, external debt indicators like external debt-GDP ratio as well as the debt service ratio declined, for which The World Bank did not hesitate to say that India is a low indebted country.

Central Fiscal Responsibility and Budget Management (FRBM) Act, 2003

Central government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 for fiscal consolidation, which became effective from 5 July

2004. It mandates the Centre to reduce fiscal deficit to 3 per cent of GDP and to completely eliminate revenue deficit by March 2009. The government undertook several measures during 2004-05 to 2007-08 to realize the objectives under the FRBM Act. Up to 2007-08, necessary space was created. In tune with the philosophy of inclusive growth and sustainable developments, the reforms laid emphasis on improving fiscal discipline. Post the FRBM Act but prior to global financial crisis, significant fiscal consolidation was achieved.

Thirteenth Finance Commission (FC-XIII) and the Fourteenth Finance Commission, constituted in January 2013 under the Chairmanship of Dr Y.V. Reddy have carried forward fiscal consolidation.

The Budget for 2012-13 introduced amendments to the FRBM Act as part of the Finance Bill. These amendments contained two important features of **expenditure reforms**. The **first** important feature is the introduction of the concept of effective revenue deficit, which excludes from the conventional revenue deficit, grants for the creation of capital assets. This is an important development for the reason that while the revenue deficit fully reflects total capital expenditure incurred, in the accounts of the centre, these *transfer* are shown as revenue expenditure. Therefore, the mandate of eliminating the conventional revenue deficit of the centre becomes problematic. With this amendment, the endeavour of the government under the FRBM Act has been to eliminate the effective revenue deficit. Similarly, at state level also, some of the capital transfers to local bodies or parastatals could get reflected as revenue expenditure'

The **second** important feature is the introduction of the provision for "Medium Term Expenditure Framework Statement" in the FRBM Act. This Medium-Term Expenditure Framework provides for rolling targets for expenditure, imparting certainty. To raise the tax-GDP ratio, these types of expenditure reforms were imparted in order have better marksmanship, thereby mitigating key fiscal risks.

State Finances

Despite the reforms in central taxes, even after the economic reforms of 1991, state government tax reforms were inadequate and sporadic. With the growing

awareness that improvement in the economic management of the states is crucial for the country to sustain high rate of economic growth and accelerate the pace of poverty reduction, a major move in this direction was the coordinated simplification of the state sales tax system in 1999. This eventually led to the introduction of a state level value-added tax (VAT) in 21 states from 1 April, 2005 to create a uniform, self-sustaining and transparent tax system for the whole country. Thereafter, government introduces a uniform GST already.entioned, applicable to the whole country with a central share and a state share.

Global Financial Crisis & Counter-cyclical Fiscal Policy and Return to Fiscal Consolidation: The Maturing of Indian Fiscal Policy

Indian economy was affected by global financial crisis of 2007-08. Somewhat the government already had an expansionary fiscal stance in view of a rural farm loan waiver scheme, the expansion of social security schemes under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) and the implementation of revised salaries and compensations for the central public servants as per the recommendations of the Sixth Pay Commission. Furthermore, the parliamentary elections of 2008 also resulted in further government expenditures.

As the crisis unfolded, the government activated a series of stimulus packages on 7 December 2008, 2 January 2009 and 24 February 2009. The impact of the measures (like central excise duty cut of 4 per cent, additional plan expenditure of about r 200 billion, further state government borrowings for planned expenditure amounting to around r 300 billion, interest subsidies for export finance) was heavy and is estimated to be around 1.8 per cent of GDP in 2008-2009. If the increase in public expenditure across the budgets of 2007-2008 and 2008-2009 is taken together it amounted to about 3 per cent of GDP.

Given its inherent strengths, which include: a strong and prudently regulated financial sector, a well-managed capital account policy, large foreign exchange reserves, strong domestic consumption and effective fiscal policy interventions, the Indian economy weathered the financial crisis rather well. GDP growth declined to 5.8 per cent (year-on-year) in the second half of 2008-2009. By 2009-2010, India’s GDP was growing at 8 per cent. This increased to 8.5 per cent in 2010-2011.

The budget of 2011-2012 aimed at dovetailing both direct and indirect tax policy with medium-term objectives of fiscal consolidation and the proposed adoption of major new tax legislations; the Direct Tax Code (DTC) for direct taxes and the GST in case of indirect taxes.

The government expenditure management initiatives also seemed to have gathered momentum with a focus on outcomes rather than allocations.

The budget of 2012-2013 envisaged a fiscal deficit of 5.1 per cent and a revenue deficit of 3.5 per cent. As the fiscal year advanced, it became increasing apparent that the fiscal situation was deteriorating. The central government set up the Kelkar Committee to examine the issue and suggest corrective action. The Committee opined that if decisive action were not taken the fiscal deficit could come.lose to 6.1 per cent of GDP. Even 'twin deficits'—fiscal deficit and current account of Bop deficits— may come to the fore.

The interim budget of 2014-2015 was the last of the second UPA regime. It witnessed two rather divergent policy directions: a desire to keep the fiscal deficit under control and a continuing commitment to social expenditures. It came at a time of growth deceleration and falling revenues.

The new NDA regime presented an interim budget after its formation. Its fiscal consolidation roadmap envisaged a fiscal deficit of 3.6 per cent for 2015-2016 and 3 per cent for 2016-2017. The personal income tax exemption limit was raised by r 50,000. In personal income tax, there were also changes in the deductions for savings invested in specified schemes (section 80C of Income Tax Act) with an increase in the limit from r 100,000 to r 150,000. The ten-year tax holiday on power generation, distribution and transmission undertakings was also extended.

In indirect taxes, the issue of inverted duties was addressed by reducing basic customs duties on certain items. The service tax base was expanded to include sale of space or time for media advertisements (other than print media), services by air-conditioned contract carriages and drug testing on human participants. On the other hand, services provided by Indian tour operators to foreign tourists outside India were taken out of the service tax net. CENVAT credit was available for rent-a-cab and tour operators to encourage tourism. Micro insurance schemes were also exempted.

The budget of 2015-2016 was the first full budget of the new NDA regime. In terms of strategic shift, it gave importance to domestic manufacturing (Make in India), improved governance, and infrastructure, and financial inclusion, steps against black money and greater focus on the aspirations of the middle class. It was presented in a backdrop of improving GDP growth and more benign inflation. The aim of reaching a fiscal deficit target of 3 per cent was to be achieved in three years instead of two years as planned earlier. The fiscal deficit targets are 3.9, 3.5 and 3 per cent for FY 2015-2016, 2016-2017 and 2017-2018, respectively. A separate Public Debt Management Agency was set up to manage both external and domestic borrowings.

There were no changes in personal income tax rates. But a reduction in corporate tax rates from the next financial year moving from 30 to 25 per cent over four years was envisaged. A new law on black money with rigorous imprisonment of up to ten years and penalty of 300 per cent was to be introduced. Several steps were directed at domestic manufacturing and investment promotion. Basic custom duty on certain inputs and intermediates in 22 items was reduced. The wealth tax was replaced by an additional surcharge of 2 per cent for persons with annual taxable income over ₹ 1 crore. The domestic transfer pricing threshold limit was increased from ₹ 5 crore to ₹ 20 crore. For middle-class taxpayers, health insurance premium deduction was increased from ₹ 15,000 to ₹ 25,000 (₹ 30,000 for senior citizens).

The deficit reduction roadmaps was put forward by the 13th FC. Despite the temporary deviation from stringent fiscal consolidation targets necessitated by the GFC, Indian fiscal policy is being steered rapidly back to the path of prudence.

5.5 Fiscal Responsibility in India : FRBM Act

The central government's revenue deficit climbed up to 4.4 per cent of GDP in 2002-2003 while the GFD was at 5.91 per cent of GDP. By 2003-2004, the combined liabilities of the centre and the states were up at 81.09 per cent of GDP from 70.59 per cent in 2000-2001. The external liabilities were, however, kept under control at only 1.67 per cent of GDP in 2003-2004.It was obvious that a new fiscal discipline framework was urgently required.

After around three years of discussions, Central government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 for fiscal consolidation,

which became effective from 5 July 2004. It mandates the Centre to reduce fiscal deficit to 3 per cent of GDP and to completely eliminate revenue deficit by March 2009. Similarly, acting in response to the debt relief package recommended by the Twelfth Finance Commission in return for fiscal correction, 24 of the 29 states too have enacted fiscal responsibility acts accepting similar obligations— fiscal deficit of 3 per cent of Gross State Domestic Product (GSDP) and zero revenue deficits by 2008-09. The case for fiscal responsibility, both at the Centre and in the states, was made on the argument that fiscal consolidation is an essential condition for accelerating growth. Thirteenth Finance Commission (FC-XIII) and the Fourteenth Finance Commission, constituted in January 2013 under the Chairmanship of Dr Y.V. Reddy carried forward fiscal consolidation. Fiscal consolidation has thus become a salient policy objective and is sought to be achieved in India via Fiscal Responsibility and Budgetary Management (FRBM) Act.

The Budget for 2012-13 introduced amendments to the FRBM Act as part of the Finance Bill. These amendments contained two important features of **expenditure reforms**. The **first** important feature is the introduction of the concept of effective revenue deficit. With this amendment, the endeavour of the government under the FRBM Act is to eliminate the effective revenue deficit. The **second** important feature is the introduction of the provision for "Medium Term Expenditure Framework Statement" in the FRBM Act. This Medium-Term Expenditure Framework provides for rolling targets for expenditure, imparting certainty. To raise the tax-GDP ratio, these types of expenditure reforms were imparted in order have better marksmanship, thereby mitigating key fiscal risks.

Three important qualifications on the way forward to fiscal responsibility are in order: First, there needs to be fiscal correction not just at the centre but also in the states. Second, for sustaining and accelerating growth, achieving the FRBM targets is necessary, but not sufficient. We need to pay attention not only to achieving the targets in quantitative terms but also to the quality of adjustment.

Third, a stand-alone deficit target is incomplete unless the level of revenue or expenditure is specified too.

Some of the main features of the FRBMA Rules 2004 are given as follows:

1. Reduction of revenue deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
2. Reduction of gross fiscal deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
3. For greater transparency in the budgetary process, Rules mandate the central government to disclose changes, if any, in accounting standards, policies and practices that have a bearing on the fiscal indicators (revenue deficit, fiscal deficit, tax revenue, and total debt as a proportion of GDP) for the medium term. The government is also mandated to submit statements of receivables and guarantees and a statement of assets.
4. The Rules mandate the central government to take appropriate corrective action in case of revenue and fiscal deficits exceeding 45 per cent of the budget estimates at the end of the first half of the financial year.

These fiscal discipline legislations seemed to have had good impact at both the central and state levels. The year before the global financial crisis in 2007-2008, the central government's revenue deficit came down to 1.06 per cent of GDP while the GFD was 3.33 per cent. The state governments achieved a revenue surplus of 0.58 per cent of GDP and a GFD of 1.81 per cent of GDP by2007. Even in the year of the crisis, in 2008-2009 they had a small revenue surplus of 0.19 per cent of GDP and a GFD of 3.2 per cent of GDP. This fiscal discipline fed into other economic variables in a positive manner.

Likely Impact of Fiscal Deficits on India's Economic Prospects:

It must be remembered that fiscal deficits are not bad *per se*. In fact, they may be necessary, even desirable in some situations. But to predict the appropriate level of fiscal deficit is very difficult and the optimum level of fiscal deficits thus varies country to country.

i) In fact, continued high fiscal deficits are a concern as they disempower the government's fiscal stance.

ii) Higher fiscal deficits usually lead to rising public debt.

iii) Large fiscal deficits may imply lower public savings, lower domestic savings, and given a level of investment, larger current account deficits.

iv) If we incur fiscal deficits together with revenue deficits, it means we are using up borrowed resources for current consumption which may raise growth in the short-term, but of the spurious variety. For sustainable growth, we need to balance our books on the revenue account

v) Continued fiscal deficits impact on inflation and interest rates. If the government finances the deficit by creating high power money, it fuels inflation. In case of India, since deficits are financed by open market borrowing, through a preferential SLR window, this often leads to higher interest rates.

vi) Fiscal deficits, especially in the face of revenue deficits, exacerbate inter-temporal equity concerns, as current generation enjoys at the expense of the later generation.

5.6 Principles of Fiscal Federalism

Federalism is an old concept. Its origin is mainly political. But it is well known that the efficiency of the government depends, among other factors, on the structure of government. Federalism as a form of government has, therefore, been concerned with functions and instruments that are best centralized and those that are best placed in the sphere of decentralized levels of government. Thus, the rationale of federalism lies in promoting welfare through decentralization and sub-national autonomy in combination with the benefits of a large market and size.

Fiscal federalism is the economic counterpart to political federalism. Fiscal federalism is concerned with the assignment, on the one hand, of functions to different levels of government and on the other, with appropriate fiscal instruments for carrying out these functions. In other words, it refers to multi-layered fiscal arrangement in which decentralization in power, functions, revenues and expenditurs is assigned to the different levels of government. It is generally believed that the central government must provide national public goods that render services to the entire population of the country. A typical example cited is defence. Local governments are expected to provide goods and services. This is the process of decentralization that enhances economic welfare. Apart from the provision of national public goods, the Central government is to be vested with the responsibilities for economic stabilization and for income redistribution. An equally important question of fiscal federalism is the determination of specific fiscal instruments

that would enable the different levels of government to carry out their functions. This is the ‘tax assignment problem’.

The traditional concerns of fiscal federalism are the assignment of taxes and responsibilities as well as correction of vertical and horizontal imbalances. However, it is necessary to take note of the changes in the environment in which government operate. Fiscal federalism must enable national and sub-national governments to operate in such a way that it leads to efficiency in the use of resources. This improvement in efficiency must be reflected not only in the services provided by the various levels of governments in which all economic agents use resources efficiently.

B. P. Adarkar has laid down three general principles of fiscal federalism. These are: (i) independence/autonomy and responsibility, the most basic element of the federal system, where the multi-level government (e.g. Central, State and Local) are free to determine regarding their fiscal matters, (ii) adequacy and elasticity where the sources of revenue,for e.g. should be elastic or adjustable, and (iii) administrative efficiency of the tax system that leads to low collection costs.

5.7 Impact of Fiscal Reforms on Fiscal Consolidation

Wide-ranging fiscal reforms in India in the 1990s figured prominently:

(i) stopping the automatic monetization of deficit, reducing inflation and shifting to domestic market borrowing,and

(ii) cutting back on current spending, while improving the tax administration.

The initial results were favourable as the combined gross fiscal deficit (GFD) fell back to 6.2 per cent by 1996-7 and inflation moderated to about 5 per cent. However, the combined GFD surged again thereafter and reached a new peak at 9.86 per cent by 2001-02. State government deficits became doubled. Nevertheless, the large fiscal deficit and rising debt rang alarm bell domestically.

Successful Fiscal Consolidation from 2003 till 2007-08

The government undertook several measures during 2004-05 to 2007-08 to realize the objectives under the FRBM Act. Up to 2007-08, necessary space was

created. In tune with the philosophy of inclusive growth and sustainable developments, the reforms laid emphasis on improving fiscal discipline. Post the FRBM Act but prior to global financial crisis, significant fiscal consolidation was achieved with the central government's gross fiscal deficits being brought down to 2.56 per cent in 2007-08[much below the threshold target of 3 per cent set in the FRBM Act (**Table 5.1**)] from 3.9 per cent of GDP in 2004-05 and the revenue deficit to 1.06 per cent of GDP in the same year

Besides, faced with a tighter fiscal policy framework and revenue gains from the implementation of the state VAT, the states have also performed well. From a fiscal deficit of 4.38 per cent and a revenue deficit of 2.3 per cent of GDP in 2003-04, the states' gross fiscal deficit came down to 1.53 per cent of GDP in 2007-08 with a revenue surplus at 0.87 per cent. The successful fiscal consolidation of 2003-08 witnessed the combined (central plus state) gross fiscal deficit thus fell to 4.12 per cent of GDP in 2007-08.

Data on 23 States shows that both revenue and fiscal deficits as percentage of the corresponding budget estimates has been lower in 2017-18.

However, the combined revenue deficit that peaked in 2001-02 at 7.05 per cent of GDP has been brought down. It contributed to a benign macroeconomic atmosphere with high growth, investment, and moderate inflation. The combined debt-GDP ratio was lowered by some 10 percentage points during the same period, a remarkable gain. Faster growth for the Indian economy was achieved and it helped: GDP growth surged above 9 per cent of GDP annually between 2004-05 and 2007-08.

The picture on the other side regarding fiscal consolidation was also bright during the same period. The central government's gross tax revenue increased from 9.4 per cent of GDP in 2004-05 to 11.9 per cent in 2007-08. This was achieved through the widening of the tax base, reforming and modernization of the tax administration, and rationalization of various taxes and duties. The overall tax structure underwent a significant change during 2007-08 when, for the first time, direct tax collection as a percentage of GDP exceeded indirect tax collection as a percentage of GDP. This implied a more progressive tax structure in the country.

The above incidents came as a rescue for the Indian economy on its fiscal front and that is why fiscal year 2007-08 was the '**golden year'** of fiscal discipline and India was thus placed in 2008-09 than at any time during the previous three decades in terms of its fiscal situation.

But the happy mirror soon faded out. Following the global financial crisis and the slowdown in aggregate demand that followed, fiscal stimulus was injected in 2008-09 and 2009-10. In the event, GDP growth moderated to about 6.8 per cent in 2008-09, thanks to counter-cyclical fiscal actions (as well as monetary policies that cut policy rates aggressively and injected large liquidity). But the fiscal deficit of the centre increased to 6.05 per cent (with a revenue deficit of 4.55 per cent) and 6.4 per cent of GDP in 2008-09 and 2009-10 respectively. The combined deficit came close to 9.59 per cent of GDP in 2009-10. The record deficits— among the highest in the world — with severe consequences for industry as the government borrows more to cover its expenses are certainly unsustainable. The fact that even after two decades, the gross fiscal deficits in 2011-12 at 9.59 per cent was higher than the 9.4 per cent that it was in the crisis year of 1990-91.Thus the FRBM targets had been missed by the central government due to the GFC.

Table 5.I : Deficits (fiscal, primary & revenue) of the Central & State Governments as percentage of GDP (Selected Years)

Year	Central			States			Combined		
	GFD	Gross Primary Deficits	Revenue Deficits	GFD	Gross Primary Deficits	Revenue Deficits	GFD	Gross Primary Deficits	Revenue Deficits
1990-91	7.84	4.06	3.26	3.30	1.78	0.93	9.41	5.02	4.2
1993-94	6.96	2.72	3.78	2.35	0.53	0.45	8.17	3.20	4.23
1996-97	4.84	0.53	2.37	2.65	0.81	1.22	6.28	1.21	3.59
1998-99	6.47	2.03	3.82	4.19	2.16	2.54	8.91	3.62	6.36
2001-02	6.19	1.47	4.40	4.14	1.43	2.65	9.86	3.65	7.05
Enactment of FRMB Act									
2003-04	4.48	(-)0.03	3.57	4.38	1.46	2.30	8.42	2.03	5.87
2005-06	3.95	0.37	2.49	2.43	0.16	0.19	6.46	0.96	2.68
2007-08	2.56	(-) 0.89	1.06	1.53	(-) 0.49	(-) 0.87	4.12	(-) 1.13	0.19
2008-09	6.05	2.60	4.55	2.63	0.72	(-) 0.19	8.50	3.35	4.14
2009-10	6.50	3.2	5.20	3.20	1.33	0.52	9.59	4.29	5.06

2010-11	4.80	1.8	3.10	2.1	N.A	0.0	6.9	1.8	3.21
2011-12	5.7	2.7	3.40	2.3	N.A	(–)0.3	8.1	N.A	4.3
2012-13	4.9	1.8	3.6	2.1	0.8	(–)0.16	7.2	N.A	3.1
2013-14	4.6	1.3	3.3	2.4	0.9	0.0	6.6	1.1	3.3
2014-15	4.1	0.9	2.9	2.6	N.A	(–)0.6	6.4	N.A	3.5
2015-16	3.9	0.7	2.5	3.1	N.A	0.0	6.3	N.A	2.4
2016-17	3.5	0.4	2.1	3.8	N.A	0.5	6.4	N.A	2.0
2017-18	3.2	0.1	1.9	3.0	N.A	0.7	6.4	N.A	3.0

Source: *Economic Survey, Government of India, Various Issues & Other sources*

The government announced a medium- term fiscal consolidation path, largely in line with the recommendations of the XIII Finance Commission. Faster growth helped the central government achieve a faster reduction in its fiscal deficit in 2010-11 to 4.7 per cent, with a target of 4.6 per cent for 2011-12, and better than the targets provided by the XIII Finance Commission. The combined prescription framework of the FRBM Act and the XIII Finance Commission played a critical role in installing greater fiscal discipline. The Union Budget 2011-12 clearly attempts to bring the central government back to a path of fiscal prudence.

Fiscal consolidation that entails revenue augmentation and expenditure rationalization, resumed in 2010-11. With growth in GDP recovering sharply in 2010-11, the fiscal deficit of the centre declined to 4.8 per cent of GDP. This momentum could not be sustained in 2011-12 as growth faltered. The fiscal deficit of the centre widened to 5.1 percent of GDP in 2012-13. The Govt. appointed a committee headed by Vijay Kelkar to chalk out a roadmap for fiscal consolidation. Following its recommendations, the government unveiled a revised fiscal consolidation roadmap in October 2012. It targeted a fiscal deficit of 4.8 per cent of GDP for 2013-14 and through a correction of 0.6 percentage point each year thereafter, a fiscal deficit of 3.0 per cent of GDP in 2016-17.

Lessons learned by Fiscal Policymakers

Indian Policymakers, at both the Centre and states have learned many lessons:

(i) Fiscal consolidation matters and delivers far better results for growth, poverty reduction.

(ii) The second important lesson is that raising revenue through broadening the tax base, lowering and simplifying rates, reducing exemptions, and improving tax administration can work very effectively

(iii) The third important lesson is the success with private provision of public services, especially in physical infrastructure.

5.8 The Finance Commission

In federal fiscal systems, on grounds both of equity and efficiency, resources are generally assigned more to the Central government whereas states together with the local governments have the larger responsibilities. The resultant vertical imbalance requires transfer of resources from the Centre to the states. States also have different capacities and needs, and this lends a horizontal dimension to the issue of resource sharing. Neither vertical (inter-governmental) nor horizontal (inter-jurisdictional) imbalances are expected to be static. Some of the core provisions regarding sharing of resources are built into our Constitution itself. But changes in the economic and fiscal situation warrant a review of the arrangements from time to time. The Indian constitution has provided for both continuity and change. Successive Finance Commissions, appointed every five years by the President of India, are entrusted with the task of periodically examining these issues (for example, making recommendations to government regarding the distribution of the proceeds of taxation both between the Union and the states, and between the states etc.) according to the constitutional provisions under Article 280 and the terms of reference. There has been an expectation that these Commissions should ensure that marked inequalities between states not be allowed to develop. Within a framework of fiscal *prudence*, the Commission also tries to correct vertical and horizontal imbalances. For example, within a framework of fiscal consolidation the Finance Commission can recommend a scheme of fiscal transfers that can serve the objectives of equity and efficiency.

5.9 Conclusion

This unit traced major developments in India's fiscal policy since 1991, the subsequent economic liberalization and rapid growth phase, the response to the GFC of 2008 and the recent post-crisis moves to return to a path of fiscal consolidation.

Following the crisis of 1991, the government charted out a path of economic liberalization. Tax reforms focused on lowering of rates and broadening of the tax base. There were attempts to curb subsidies and disinvest government holdings in public sector industries. While initially the fiscal deficit and public debt were brought under control, the situation again started to deteriorate in the early 2000s. This induced the adoption of fiscal responsibility legislations at the central and state levels. There were also reforms in the state-level tax system with the introduction of VAT. Consequently, there were major improvements in the public finances. This probably contributed to the benign macro-fiscal environment of high growth, low deficits and moderate inflation that prevailed around 2008. The global financial crisis (GFC) brought an end to this phase as the government was forced to undertake sharp counter-cyclical measures to prop up growth in view of the global downturn. Measures included, excise duty cuts, fiscal support to selected export industries and ramping up public expenditure.

The Indian economy weathered the global crisis rather well with growth going down to only 5.8 per cent in the second half of 2008-2009 and then bouncing back to 8.5 per cent in 2009-2010. In view of the recovery, a slow exit from the fiscal stimulus was attempted in a manner whereby fiscal consolidation was achieved without hurting the recovery process.

In the future, it appears that the government would focus on tax reforms and better targeting of social expenditures to achieve fiscal consolidation while maintaining the process of growth. Fiscal policies will have to be restructured to facilitate acceleration in growth with macroeconomic stability.

5.10 Key Terms Simplified

GFD: In the Indian fiscal statements, the terms gross and net fiscal deficit are used. 'The *gross fiscal deficit* (GFD) of government is the excess of its total expenditure, current and capital, including loans net of recovery, over revenue receipts (including external grants) and non-debt capital receipts'.

NFD: The net fiscal deficit is the gross fiscal deficit reduced by net lending by government. The gross primary deficit is the GFD less interest payments while the primary revenue deficit is the revenue deficit less interest payments.

Tax administration reforms :Tax administration reforms included the introduction of computerization, significant expansion of the scope of tax deduction at source (TDS) (whereby payers of amounts liable to tax were mandated to deduct tax and pay the same to government), simplified procedures for smaller taxpayers and an active program to expand the tax net and identify new taxpayers.

Specific Duties: Specific duties are levied in terms of a certain amount for every unit, for instance a tax amount per litre of alcohol or per hundred cigarettes.

Ad valorem taxes Ad valorem taxes are based on the value of the article or service to be taxed at a certain rate. For instance, a 10 per cent ad valorem sales or consumption tax rate would mean that if a good worth r 100 were purchased, a tax of r 10 would be paid.

Direct taxes: Taxes are the main source of government revenues. Direct taxes are so named since they are charged upon and collected directly from the person or organization that ultimately pays the tax (in a legal sense).Taxes on personal and corporate incomes, personal wealth and professions are direct taxes. In India, the main direct taxes at the central level are the personal and corporate income tax. Both are till date levied through the same piece of legislation, the Income Tax Act of 1961. Income taxes are levied on various heads of income, namely, incomes from business and professions, salaries, house property, capital gains and other sources (like interest and dividends).

Other direct taxes include the recently removed wealth tax and the securities transactions tax.Some other forms of direct taxation that existed in India from time to time but were removed as part of various reforms include the estate duty, gift tax, expenditure tax and fringe benefits tax.

Indirect Taxes: Indirect taxes are charged and collected from persons other than those who finally end up paying the tax (again in a legal sense). For instance, the seller collects a tax on sale of goods from the buyer. The legal responsibility of paying the tax to government lies with the seller, but the buyer pays the tax. The current central indirect taxes are the central excise (a tax on manufactured goods), the service tax, the customs duty (a tax on imports) and the central sales tax on inter-state sale of goods. The main indirect tax levied by the states is the sales tax. This tax levied on post-manufacturing transaction of goods (that is wholesale and retail

levels) is now largely a value-added tax with intra-state tax credit. The complications and economic inefficiencies of this multiple cascading taxation across the economic value chain (necessitated by the constitutional assignment of taxing powers) are Goods and Services Tax (GST).

Evolution of India's fiscal policy architecture: The Indian Constitution provides the overarching framework for the country's fiscal policy. India has a federal form of government with taxing powers and spending responsibilities being divided between the central and the state governments according to the Constitution. There is also a third tier of government at the local level. Since the taxing abilities of the states are not necessarily commensurate with their spending responsibilities, some of the centre's revenues need to be assigned to the state governments. The Constitution provides for the formation of a Finance Commission (FC) every five years to provide recommendations for the assignment of taxes and give medium term guidance on fiscal matters. Based on the report of the FC, the central taxes are devolved to the state governments. The Constitution also provides that for every financial year, the government shall place before the legislature a statement of its proposed taxing and spending provisions for legislative debate and approval. This is referred to as the budget. The central and the state governments have their own budgets. Formally, the budget is usually referred to as the Finance Bill of the particular calendar year and is passed by the Parliament as the Finance Act.

There is now increasing devolution of some powers to local governments at the city, town and village levels. The taxing powers of the central government encompass taxes on income (except agricultural income), excise on goods produced (other than alcohol), customs duties and inter-state sale of goods. The state governments are vested with the power to tax agricultural income, land and buildings, sale of goods (other than inter-state) and excise on alcohol.

During his first Independence Day speech, Prime Minister Narendra Modi indicated that the government would replace the Planning Commission with an alternative body. The era of strong central planning in the Indian economy is probably a thing of the past. The budgetary distinction between plan and non-plan expenditure was sought to be removed from the budget process of 2016-17 as was the separation of the railway and main budgets.

The new regime has focused on rebalancing the federal fiscal architecture with greater stress on cooperative federalism. In this direction, the new NITI Aayog has been established. The aim is to replace the top-down approach with one in which states build upon their strengths and build their own development strategy. The report of the 14th Finance Commission has also recommended greater devolution of taxes to the states. This includes a sharp increase of states' share of taxes from 32 to 42 per cent of the gross tax revenue divisible pool. Consequently, the centre-state funding pattern is being modified. Henceforth, the revenue expenditure on some schemes and programmes is to be borne by the states.

5.11 Questions with Answer Hints

Questions Carrying 2.5 marks

1. **What is fiscal policy?**

   [Ans: See section 5.2]

2. **What is the task of the Finance Commission?**

   [Ans:See Section 5.8]

3. **State three basic principles of fiscal federalism.**

   [Ans: See last para of Section 5.6]

4. **What was the basic objective of fiscal reforms since 1991?**

   [Ans: See Section 5.4]

5. **Write down the important qualifications on the way forward to fiscal responsibility.**

   [Ans:: See Section 5.5]

6. **What is cooperative Federalism?**

   [Ans: The vertical cooperation between the center and states is called Cooperative Federalism. Recent experience with the GST has shown that vertical cooperation between the center and states—Cooperative Federalism—has brought transformational economic policy changes.]

Questions Carrying 5 marks

1. **What is the difference between fiscal policy and monetary policy?**

   [Ans: See Section 5.2]

2. **Write a short note on principles of fiscal federalism.**

   [Ans: See Section 5.6]

3. **What are the objectives of fiscal policy in India?**

   [Ans: See Section 5.3]

4. **What was the task entrusted upon the Finance Commission?**

   [Ans: See Section 5.8]

5. **How does the Finance Commission work?**

   [Ans: The Finance Commission is a Constitutional body formulated under Article 280 of the Indian Constitution. It is constituted every five years by the President of India to review the state of finances of the Union and the States and suggest measures for maintaining a stable and sustainable fiscal environment. It also makes recommendations regarding the devolution of taxes between the Center and the States from the divisible pool which includes all central taxes excluding surcharges and cess which the Centre is constitutionally mandated to share with the States. In addition to the primary objectives mentioned above, the terms of reference for the commission sought suggestions regarding the principles which would govern thequantum and distribution of grants-in-aid (non-plan grants to states), the measures, if needed, to augment State government finances to supplement the resources of local government and to review the state of the finances, deficit and debt conditions at different levels of government.]

6. **Name the three major channels through which the Centre transfers funds to state government.**

   [Ans(i) Tax devolution and grants through the Finance Commission:A fixed proportion of all taxes collected by the Centre devolves to the states based on the recommendations of the Central Finance Commission which is set up every five years to review this sharing mechanism. Based on the

recommendations 13th Finance Commission, 32 per cent of the revenue collected from these taxes are currenly being transferred to the states through devolution. The inter se share of different states is also determined on the basis of the recommendations of the Finance commission. Some indirect taxes are levied by the states. Examples of this are the central sales tax and exise duty on medicinal and toilet preparations (containing alchohal). The revenues from these taxes are retained by the states.,ii) Grants and loans given by the NITI Ayog, (earlier by Planning Commission) and (iii)Transfers for various centre-sector and centrally sponsored schemes by various central ministries.

7. **Why fiscal year 2007-08 is called the 'golden year' of fiscal discipline?**

   [Ans: See Section 5.4]

8. **What is the likely impact of fiscal deficits on India's economic prospects?**

   [Ans:See section 5.5 last part]

9. **What is GST? State different forms of GST. What would be the likely impact of GST on the Indian economy?**

   [Ans: See the Section titled 'Introduction of GST']

10. **What good will GST bring to the economy?**

    [Ans: See the opening para of the Section titled 'Introduction of GST']

Questions Carrying 10 marks

1. **State some of the direct tax reforms in India initiated after the economic liberalization in India.**

   [Ans: See Section 5.4]

2. **State major indirect tax reforms initiated in India after the economic liberalization in India.**

   [Ans: See Section 5.4]

3. **What were the impacts of fiscal reforms on fiscal consolidation?**

   [Ans: See Section 5.7]

4. **Write down the evolution of India's fiscal policy architecture?**

   [Ans: See Section 5.10]

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Unit 6 ☐ TRADE AND INVESTMENT POLICY

Structure

6.1 Objective

6.2 Introduction

6.3 Trade Policy

6.3.1 Import Substitution-based Industrialization

6.3.2 Export-led Growth

6.4 Current and Capital Account Convertibility

6.5 Trade Policy in India prior to 1991

6.6 Trade Policy in India since 1991

6.7 FDI Policy

6.7.1 First Phase (1950-1980)

6.7.2 Second Phase (1980-91)

6.7.3 Third Phase (Post -1991)

6.8 FII Policy

6.9 Conclusion

6.10 Key Terms simplified

6.11 Questions with Answer Hints

Questions Carrying 2.5 marks

Questions Carrying 5 marks

Questions Carrying 10 marks

6.12 References

6.1 Objectives

After reading this unit, you will be able to:

- explain the two approaches: 'import substitution industrialisation' and 'export led growth' in international trade;

- discuss the two concepts of 'convertibility';
- analyse trade policy: Pre-reform and Post-reform;
- distinguish between FDI and FII;
- outline the FDI policy pursued by India over different time periods; and
- illustrate the importance of 'bilateralism' and 'multilateralism' in the context of trend in 'regionalism' practiced by countries to promote their respective trade interests.

6.2 Introduction

The foreign trade of a country consists of inward and outward movement of goods and services, which result into outflow and inflow of foreign exchange from one country to another country. During present times, international trade policy is a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation in an economy.

Foreign trade and investment policy play a crucial role in the development process. So far foreign trade is concerned, imports of technology, industrial raw materials, and intermediates are essential for sustained economic growth and stability of the economy. As for exports, they have to expand much more in order to finance the import needs for a higher growth path and diversification of the economy. A trade imbalance induces disruption in the supply of imports and since this may have adverse repercussions for the whole economy, the foremost concern in trade planning should be to maintain and expand exports so that there is no difficulty in buying the required imports for growth in the economy.

There are a variety of means such as institutional innovation, organizational reform and policy initiatives which may be deployed severally, or in concert, to attain the desired long run objectives relating to foreign trade. But among these, policy, as experience shows, whether in foreign trade or in investment, has a certain primacy. For, if policy levers are not properly wielded, wrong signals could be transmitted through a totally inappropriate set of incentives or disincentives. This is likewise applicable in case of foreign Direct Investment (FDI)Policy as well as in Foreign Portfolio Investment (FPI) policy also. In is in this setting that the present unit will

first chronicle the distinction between import substitution industrialization policy and export-led growth strategy especially in the Indian context and thereafter it will critically discuss the foreign trade policy prior to 1991 and post – 1991 along with a critical analysis of foreign direct investment (FDI) and foreign institutional investment (FII) policies taken so far in the Indian economy.

6.3 Trade Policy

The foreign trade of a country consists of inward and outward movement of goods and services, which result into outflow and inflow of foreign exchange from one country to another country. During present times, international trade policy is a vital part of development strategy and it can be an effective instrument of economic growth, employment generation and poverty alleviation in an economy.

6.3.1 Import Substitution-based Industrialisation

Import Substitution industrialization (ISI) is a trade and economic policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced substitutes. It is an economic development strategy that was in wide use from the end of the World War II through the mid 1960s. At its zenith in the 1960s, it was adopted by developing countries in Africa, Asia and especially Latin America mainly guided by the Prebisch-Singer hypothesis focusing that commodity terms of trade goes against the developing countries while they are engaged in trade. That is why the then developing countries embraced ISI policy.

The ISI has three major tenets: 1) an active industrial policy to promote a domestic industrial base and domestic industries can grow accustomed to protection from foreign competition and have no incentive to become more efficient 2) protective barriers to trade (viz., tariffs and quotas to protect new infant industries); and 3) a monetary policy that rations foreign exchange, with multiple exchange rates to channel it to the imports of non-competitive, intermediate and capital goods.

The state-backed import substitution became the key thrust of the trade policy in the late fifties in India as a long-term solution to India’s BoP (balance of payments) difficulties. The short- term problems were sought to be taken care of by a tight

system of import controls as well as by arranging for a large-scale inflow of assistance. Protection to promote domestic industries through high tariff barriers, multiple exchange rates, import licensing arrangements and subsidies was not seen as detrimental to trade and development. It is noteworthy that this import substitution regime continued till 1981. It is now widely recognized that prolonged use of ISI in India was a mistake because the impact of prolonged ISI in India in terms high effective rates of protection, market concentration, high unit cost of production, and overvaluation of currency and extreme government interventions into production eventually led to anti- export bias. Thus, ISI strategy yielded disappointing results in many developing countries; it yielded neither industrialization nor growth. In Indian case, growth rate over this long period from late 1950s to 1981 was on average 3.5 per cent per annum—what economist Raj Krishna called Hindu rate of growth.

6.3.2 Export-led Growth

Export-led growth is an economic development strategy emphasizing the exploitation of a country's actual or potential comparative advantage through production for foreign markets. In other word, export-led growth is a trade and economic policy aiming to speed up the industrialization process of a country by exporting goods for which the nation has a comparative advantage. It is often contrasted with ISI policy since it is 'outward looking' while ISI is 'inward looking'; the strategy lays stress on export expansion. The essence of the strategy is that it provides a bias to the economy towards exports.

Modern forms of export-led growth first came to prominence in the 1960s when several East Asian countries turned away from ISI strategies and began to promote manufactured exports. The success of these Asian export economies, known variously as the Little Dragons or Four Tigers, called into question the idea of export pessimism, the belief that low and middle income developing economies could not compete with manufactured goods in developed country markets. By the mid-to-late 1980s, export-led growth had completely replaced ISI as orthodoxy.

In addition to the demonstration effect of East Asian export economies, several other factors stood behind the success of export-led growth strategy as a policy idea. Prominent among them were the loss of confidence in interventionist, state-led management of the economy and the failure of traditional ISI policies to address the worsening economic conditions of Latin America stemming from the debt crisis of

the 1980s. A third major factor that contributed to developing country for adoption of export-led growth strategy is the communication and transportation revolution of the last decades of the twentieth century. Technological changes in transport and communications enabled firms to locate more production abroad and increased the opportunities for developing countries to participate in production processes spanning several nations. All of these changes supported the ideas of pursuing comparative advantage and exports as engines of growth.

India initiated export-led growth strategy since the early 1990s with its economy being integrating with the world economy. As a result, India's merchandise exports share in world exports increased from 0.5 per cent in 1990 (after which economic reforms were introduced in India) to only 1.7 per cent in 2013 along with the increase of trade orientation ratio. Export-led growth strategy is integrating India and other countries into the world economy and the fact above will create changes in the world economy.

6.4 Current and Capital Account Convertibility

Currency convertibility has two dimensions: (i) current account convertibility and (ii) capital account convertibility.

(i) Current account convertibility refers to the freedom in respect of payments and transfers for current international transactions. With growing strength of the BoP, in the post-1991 reform period, in August 1994, by accepting obligations under Article VIII of the articles of agreement of the IMF, the Rupee in August 1994 was made fully convertible on current account by the GoI ; this meant that restrictions relating to purchase of and sale for goods and services for current transactions were removed.

(ii) Capital account convertibility (CAC), on the other hand, implies the freedom to convert local financial assets to foreign financial assets and vice versa at market determined exchange rate, without needing any permission from the government. In other words, CAC implies complete mobility of free and unregulated capital funds across countries with no legal restrictions.

From 2002 to 2005, following mainly the East Asian crisis in 1997-98, several emerging markets (Columbia, Russia and Venezuela) implemented new controls on

capital inflows, largely to reduce the appreciation of their currencies and avoid financial crises. Over the same period, however, several large emerging markets such as **China and India** moved into the opposite direction and lifted many of their existing controls and went in for capital account convertibility (CAC). India following Tarapore Committee report II introduced fuller CAC.

Benefits of capital account convertibility

The free movement of capital across borders can have widespread benefits : (a) capital inflows can provide financing for higher- return investment, thereby raising growth rates, and (b) capital inflows—especially in the form of foreign investment—often bring improved technology, management techniques, and access to international networks, all of which further raise productivity and growth. Capital outflows can allow domestic citizens and companies to earn higher returns and better diversify risk. Capital inflows and outflows can increase market discipline, thereby leading to a more efficient allocation of resources and higher productivity growth. Implementing capital controls can reduce a country's ability to realize these multifaceted benefits.

Costs of capital account convertibility

The free movement of capital across borders have some costs. Countries reliant on foreign financing will be more vulnerable to " sudden stops" in capital inflows, which can cause financial crisis and / or major currency depreciation. Large volumes of capital inflows can cause currencies to appreciate and undermine export competitiveness, causing what is called the " Dutch disease" The free movement of capital can also complicate a country's ability to pursue an independent monetary policy, especially when combined with fixed exchange rate. Finally, capital inflows may be invested inefficiently due to a number of market distortions thereby leading to overinvestment and bubbles that create additional challenges. Capital controls can potentially reduce these costs from free movement of capital.

6.5 Trade Policy in India Prior to 1991

A strict regime of import and export controls defined trade policy. Tariff rates as high as 200 per cent were common, non-tariff barriers remained widespread, and the industrial licensing regime continued to impose constrains on the entry and growth

of most firms. The medium-or large-scale units were allowed to continue production but were not permitted any further capacity expansion. The size of the small –scale units were very small, while the large players were not allowed to reap economies of scale by expanding capacity.

Prior to 1991, India had followed a state-backed inward-looking, ISI trade policy with a plethora of controls and regulations in the form of open general licensing (OGL), canalized imports (i.e., monopoly rights of the government for imports), exports incentives through Replenishment Licenses or (RLP), Advance Licenses and Duty Exemption Scheme, Export Processing Zones(EPZs) for free trade environment, Subsidies on Domestic Raw Materials, Fiscal Concessions for Exports, Export Credit and Assistance to Export Promotion Councils(EPCs) and Blanket Exchange Permit Scheme, till 1991. Besides, one of the characteristic elements in the pre-reform period trade policy was that the exchange rate remained overvalued most of the time. Exchange rate adjustment was never used as an instrument to manage the repeated crises of BoP. This made imports cheaper and exports unprofitable further contributing to current account imbalance to BoP.

The gradual liberalization of the 1980s led to some major macroeconomic, imbalances. While import liberalization led to a gradual increase in import intensity during the second half of the 1980s, exports did not grow commensurately. Current account deficit (CAD) of BoP soared to an alarming level. Along with high CAD, fiscal deficit also became very high during this period. These factors made India vulnerable to external shock. The authorities then realized that there should be sea change in India's trade policy following the reforms.

6.6 Trade Policy in India Since-1991

The massive trade liberalization measures adopted after 1991 mark a major departure from the relatively protectionist foreign trade policies pursued in earlier years.India's trade policy. reforms since 1991 seem to have been guided mainly by the concerns over globalization of the Indian economy, improving competitiveness of its industry, and adverse BoP situation. The liberalized trade regime came on 1 July and 3 July, 1991 when the government made a two- step downward adjustment of 18-19 per cent in the exchange rate of the rupee. This was followed by the introduction of LERMS i.e., partial convertibility of rupee in 1992-93, full convertibility

on the trade account in 1993-94 and full convertibility on the current account in August 1994.

Substantial capital account liberalization measures have also been announced following Tarapore Committee Report I (1997) and II (2006). This is one of the milestone drives. The exchange rate of the rupee is now market-determined. Thus, exchange rate policy in India has evolved from the rupee being pegged to a market related system (since March 1993). Now India is on the path of full capital account convertibility

Close on the heels of exchange rate depreciation of the Indian rupee, the government introduced wide-ranging structural reforms in the country's trade policy on 4 July 1991, when the new EXIM Policy was announced. The then Commerce Minister announced a major overhaul of India's trade policy. The basic aim of such trade policy was to cut short the '*license-permit-quota raj'* so as to push the Indian economy to align with the free market principles. The objective of trade policy after 1991 was to facilitate export expansion and thereby augmenting aggregate employment.

Apart from major the trade policy reforms undertaken in 1991, the highlights of the trade policies after 1991 can be summed up in the following ways:

1) 1992-97 EXIM Policy

The EXIM Policy of 1992-97 announced by the government on 31 March gave greater freedom to trade. This new policy was a step forward in respect of import liberalization. It had also a export bias. It abolished 'EXIM scrip' introduced in 1991. On March 30, 1994, the government made some changes in EXIM Policy of 1992-97 where imports had been liberalized further and adequate incentives were given to boost exports.

Acting on the recommendations of the Chelliah Committee, the government has, over the years, reduced the maximum rate of duty. As of December 1995, more than 3000 tariff lines covering law materials, intermediaries and capital goods were freed from import licensing requirements.

Following all the measures taken since July 1991, what was heartening was that exports during this period surged ahead and forex exchange reserve rose to a comfortable level.

II) EXIM Policy of 1997-2002:

BJP Government assumed power in March1998 and announced a new EXIM Policy for the period 1997-2002. The main objectives were similar to earlier policies but with some cosmetic changes. For example, restrictions of import of 542 commodities had been removed and nearly 60 commodities were brought under OGL list. A total of 894 items were added to the free list of imports. Besides, greater weightage to agro-exports had been given.

III) Annual Supplements to the 1997-2002 EXIM Policy were made in 2000-01:

Despite continual efforts at promoting exports, export performance in the first decade of economic reforms were hardly satisfactory. Even successes of Export processing Zones (EPZs) first and then FTZs were limited. Realizing this, the Special Economic Zones (SEZs) Policy was introduced for the first time in India in April 2000, as a part of the Export-Import (EXIM) policy of India. The basic rationale for the creation of SEZs units is to provide a totally free atmosphere conducive to exports. Such units would be allowed to import capital goods and raw materials duty free. Most importantly, for the purposes of trade operations and tariffs, SEZ units would be treated as 'deemed' foreign territory. Several export expansion schemes like DEPB, VABAL for electronic sector, SIL, etc., were to be established. EPCG scheme was to be extended to help small exporters. Aligning EXIM procedures with WTO norms, quantitative restrictions (QRs) on imports of 714 items were to be removed.

In view of the country's commitment as a member of the WTO, this 2000-01 policy had been modified for the period 2001-02.

IV) EXIM Policy 2001- 02

This policy removed QRs on the balance 715 items. Thus, in line with India's commitment to the WTO, QRs on all import of manufactured consumer goods and agricultural products were finally removed on April 1, 2001 almost exactly ten years after the reforms began.

In addition, imports of firm products were allowed. Agricultural exports were emphasized for its promotion through designated state trading agencies.

V) EXIM Policy of 2002-07

Over the years, the trade policy of the Government of India had undergone fundamental shifts to correct the earlier anti-export bias through the removal of

various QRs, reduction and rationalization of tariffs, liberalization in the trade and payments regime, adoption of various export-incentive measures, movement toward market- based exchange rates, etc. These measures indicate that the country has seriously opted for export-led growth strategy or outward-looking strategy so as to improve the competitiveness of Indian products in the global market.

The then Union Commerce and Industry Minister on March 31st, 2002 announced the EXIM Policy for the Five-Year period (2002-07) coinciding with the Tenth Plan period. The main thrust of the policy was to create an expanding base of tradable goods and services. Various export policies had been formulated from time to time. SEZs were being set up to further boost the exports. A comprehensive package for development of SEZs was made. The policy was geared towards the goal of attaining US $ 80 billion exports over the Tenth Five Year Plan by 2007.

The Exim Policy 2002 meanwhile had removed all QRs on exports, except for a few sensitive items. Exchange rate was consequently viewed as an instrument to effect the behaviour of exports. With the introduction of almost full convertibility on the current accountand, also partial convertibility on the capital account, the exchange rate had been made more sensitive to the demand for and supply of foreign exchange in the economy.

VI) Foreign Trade Policy of 2004-09

The amended Export-Import Policy, 2002-07, announced on March 31, 2003, by the then Commerce Minister Arun Jaitley specifically emphasized service exports as an engine of growth. It, accordingly, announced a number of measures for the promotion of exports of services.

After assuming power in New Delhi in 2004, the UPA government announced a new EXIM policy on 3 August. This policy had been renamed as the Foreign Trade policy (FTP) instead of EXIM policy since it takes into account an integrated approach to the development requirement of India's foreign trade.

The twin objectives of the 2004-09 FTP were — doubling India's share in global merchandise trade from the current 0.8 per cent to 1.5 per cent within 2009 and increasing in employment opportunities. For this purpose, in order to boost exports, a new scheme, known as 'Target Plus' was introduced alongside with other

schemes like ‘Visesh Krishi and Gram Udyog Yojana’ by encouraging export of village and cottage industry. Besides, ‘Served from India Scheme’ was built as a brand.

VII) Some Modifications and Annual Supplement to the 2004-09 FTP:

This was made in April 2007. Here some new features were added to the ‘Served from India Scheme.’ A major development related to FTP was the operationalisation of SEZ Act, 2005. This FTP has announced some sort of procedural simplification like a single application of “AYAT- Niryat” that helped to reduce paper work by 60 per cent for the exporters.

FTP measures include also reduction in peak rate of custom duties to 10 per cent.

All the above policy measures announced in FTP 2004-09 and the Annual Supplement helped India’s merchandise exports to grow at more than 20 per cent in the first ninth month of the fiscal year 2007-08, despite the rupee appreciation.

VIII) FTP of 2008-09:

Trade policy measures announced by the GoI and the RBI in 2008- 09 was to mitigate the effects of global recession. Three stimulus packages by the RBI (like increase in liquidity to the bank for improving credit flows, increases in forex liquidity, easing of credit terms) were given in the second half of 2008-09 to help export sector in general and some sectors affected or likely to be affected by the global recession in particular.

IX) FTP of 2009-14

In view of this global crisis, many countries adopted some protective measures which hurt India’s exports rather badly. Against this economic downturn,, the Foreign Minister, Anand Sharma unveiled a new FTP on August, 2009.

The immediate objective amidst global gloomy economic outlook is to arrest and reverse the downturn slide of India’s exports and provide necessary support to the exporters which had been hurt by the recession. The FTP 2004-09 aimed at achieving an annual growth of 15 per cent with annual export target of US $200 billion by March 2011.

X) FTP 2015-20

Realizing India's poor export performance, the present changing nature of her composition and direction of trade, that can hamper the growth process in the arena of international trade and not to find any tangible solution from WTO negotiations and ultimately to have some gains (gains from trade not only are good, it also brings pains sometimes) from bilateral and regional trade agreements, aiming to nearly double India's exports of goods and services to $900 billion by, by 2019-20, from $466 billion in 2013-14, and to raise India's share in world exports from 2% to 3.5%, the NDA government has announced several incentives in the five-year Foreign Trade Policy for exporters and units in the Special Economic Zones.

Unveiling the first trade policy of the NDA government, Commerce Minister Nirmala Sitharaman said the FTP (2015-20) will introduce Merchandise Exports from India Scheme (MEIS) and both the manufacturing and Services Exports from India Scheme (SEIS) to boost outward shipments.

i) **Merchandise Export from India Scheme**:

The six different schemes of the earlier FTP (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme (FMS), Agriculture Infrastructure Incentive Scrip, Vishesh Krishi and Gram Udyog Yojana (VKGUY) and Incremental Export Incentive Scheme) have been merged now into a single scheme, namely the Merchandise Export from India Scheme (MEIS) for export of specified goods to specified markets and there would be no conditionality attached to the scrips issued under the scheme. Measures have been taken to give a boost to exports of defense and hi-tech items. At the same time e-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customized fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values upto 25,000 INR). These measures would not only capitalize on India's strength in these areas and increase exports but also provide employment.

ii) **Service Export from India Scheme**:

The Served from India Scheme (SFIS) has been replaced with the Service Export from India Scheme (SEIS). Since sector-wise performance of services exports in 2014-15 and H1 of 2015-16 has been uneven, with some sectors exhibiting a turnaround and higher growth while others registered considerable decline, the government has taken a number of policy initiatives to promote services exports

which include the Service Exports from India Scheme (SEIS) for increasing exports of notified services from India; organizing Global Exhibitions on Services (GES) and services conclaves to augment exports of various services and position India as a key player in world services trade; besides some initiatives in sectors like tourism and shipping are also being taken. Given the potential of India's services exports, services-sector negotiations both at multilateral and bilateral/regional levels are also taking place. However, the SEIS applies to 'service providers located in India' instead of 'Indian service providers'. Thus it provides for incentives to all service providers of notified services who are providing services from India.

iii) **Incentives (MEIS & SEIS) to be available for SEZs**:

FTP 2015-20 extends the benefits of the MEIS and SEIS to special economic zones (SEZ) as well, which will give a new impetus to the development and growth of SEZs. Commerce Minister states that although exports from SEZs have had seen phenomenal growth, significantly higher than the overall export growth of the country, in recent times they had been facing several challenges. In order to give a boost to exports from SEZs, government has now decided to extend benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs. It is hoped that this measure will give a new impetus to development and growth of SEZs in the country.

iv) **Duty credit scripts are made freely transferable and usable for payment of custom duty, excise duty and service tax**.

v) For supporting both manufacturing and services exports and to ease trade, FTP is aligned to Make in India, Digital India and Skills India initiatives.

Other measures

(a) Under the Export Promotion Capital Goods (EPCG) scheme, in case capital goods are procured from indigenous manufacturers, specific export obligation has been reduced to 75 per cent. This is designed to help the indigenous capital goods manufacturing industry.

(b) Under the MEIS, export items with high domestic content and value addition have generally been provided higher levels of incentives.

Additional Ports allowed for Export and import: Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

Quality complaints and Trade Disputes: In an endeavour to resolve quality complaints and trade disputes, between exporters and importers, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy. For resolving such disputes at a faster pace, a Committee on Quality Complaints and 18 Trade Disputes (CQCTD) is being constituted.

Vishakhapatnam and Bhimavaram are added as Towns of Export Excellence: Government has already recognized 33 towns as export excellence towns. It has been decided to add Vishakhapatnam and Bhimavaram in Andhra Pradesh as towns of export excellence.

Recent Measures for Trade Facilitation

Trade facilitation and enhancing the ease of doing business are the major priority of the Government in its new trade policy for cutting down the transaction cost and time, thereby rendering Indian exports more competitive. This is the why the government has taken following measures:

(a) The government has reduced the number of mandatory documents required for exports and imports.

(b) **Customs single window initiative**: The Union Budget 2014-15 announced an Indian Customs Single Window Project to facilitate trade. This project envisages that importers and exporters will electronically submit their customs clearance documents at a single point with customs.

(c) 24× 7 Environment: One of the major objectives of the new FTP is to move towards a paperless working in 24x7 environments.

(d) Attention has also been paid to simplifying various 'aayat niryat' forms, bringing in clarity in different provisions, removing ambiguities and enhancing electronic governance.

(e) The Directorate General of Foreign Trade (DGFT) has launched a new-look website, making it more user-friendly and easy to navigate.

(f) Training/outreach programmes for exporters: Considering the strategic significance of small and medium scale enterprise in the manufacturing sector and in employment generation, 'MSME clusters' 108 have been identified for focused interventions to boost exports. Accordingly, 'Niryat Bandhu Scheme' has been galvanized and repositioned to achieve the objectives of 'Skill India'

It is indeed commendable that this new FTP brings State and Union Territories for the first time in the process of international trade.

All this represented a big move towards opening the economy. In this way the trade and payments policy system moved from a fixed and typically overvalued exchange rate operating in a framework of substantial trade restrictions and export subsidies, to a market determined exchange rate and ultimately to a managed float within a framework of considerable liberalization on the trade account and elimination of restrictions. One more milestone was by moving towards capital account convertibility.

In what follows from India's long journey in adopting trade policy over the years we can also tell that it has witnessed several transition periods :

First Transition Period came during the Third FYP (1961-66.) which showed a distinct change in the perception about the role of exports. Exports were accorded high priority in the Plan, and this shift in policy approach was followed by the introduction of a number of export promotion measures.

The period (1980-65) could be hailed as **Second Transition Period** in trade and payments policy regime, since there had been renewed thinking regarding liberalization of the industrial and trade regimes. Since the early 1980s, export incentives have been expanded. After the second oil shock, import controls were not tightened. There was no exchange rate depreciation

Right from beginning of the mid-1980s, India witnessed **Third Transition Period** in her trade and payments policy regime. Between 1985 and 1990 the pattern of trade reform in India during this Rajiv era was one of moving toward a more neutral trade regime.

The period 2015-20 could be hailed as the **Fourth Transition Period** when FTP 2015-20 included various new initiatives, provisions and procedures to provide better condition and ease in foreign trade.

Searching for New Markets — A Part of India's Trade Policy

India always favoured multilateral trading system under the rules and regulations governed by the WTO. India had adopted a cautious approach to the RTAs (regional trade agreements). Since late 2000s, recognizing that RTAs/PTAs (Preferential Trade agreements)/FTAs would continue to feature prominently in world trade, given the

slow nature of multilateral negotiations, and realizing that the promise of the WTO of increased, equitably distributed welfare gains for all world trade participants remains distressingly unfulfilled, India has begun moving towards FTAs/RTAs and Comprehensive Economic Cooperation Agreements (CECAs) [e.g. Agreement on South Asia Free Trade Area (SAFTA), India Pacific Trade Agreement (IPTA), India-ASEAN Comprehensive Economic Cooperation Agreement (CECA) as a indispensible part of "Look East Policy" to enhance its trade and commercial relations with the countries of South East Regions). ASEAN is India's fourth-largest trading partner after the European Union, the United States and China. Trade between India and ASEAN presently stands more than US$80 billion. In near future it will be the hub of global sourcing and manufacturing. So India's regional trade agreements with ASEAN have becoming more and more crucial in the changing scenario of power.

While India has always stood for rule based multilateral trading system (MTS), in recent years, it has been active with bilateral agreements to boost trade in goods and services. Some of the important bilateral agreements of India with other countries are: EHS [Early Harvest Scheme,, being primarily a confidence building measure identifying certain products for tariff liberalization)]with Thailand, India-New Zealand FTA-CECS, India-Canada FTA and India-Australia CECA.

6.7 Foreign Direct Investment (FDI) Policy

FDI flows come as capital bundled with technology, skills, and sometimes even market access. Therefore, they are perceived as important resources for expediting the industrial development of receiving countries. Most developing countries, therefore, have a welcome attitude towards MNCs and FDI because it fosters growth by increasing capital accumulation, including technological change and greater efficiency, improving BoP, and increasing exports, increases the total amount of invest,nt in the economy, improves access to world markets and also helps release the resource constraints on investment.

India's FDI policy so far has gone through three main phases:

A. **First Phase (1950-1980)**

When India got her Independence, her attitude towards inflow of foreign capital, particularly foreign direct investment (FDI), was one of suspicion, if not outright

hostility. This is clear from the assurance from the then Prime Minister made in 1949: (i) there shall be no discrimination between Indian and foreign undertakings;(ii)facilities will be given to foreign investors for remittances of profit;(iii)due compensation will be paid in case a foreign undertaking is nationalized.

The attitude towards foreign capital remained unchanged in the 1956 Industrial Policy Resolution (IPR).

Foreign Investment policy in this phase was largely determined by the struggle between the government and monopoly foreign interests, particularly TNC oil companies.

B. **Second Phase (1980-91)**

This period ushered in liberalization which was guided by the principle of relaxation of controls that acted as constraints. IPR of 1980 and 1982 began delicensing of industries and 1969 MRTP Act was scrapped. However, liberalization in this period was extended mainly to foreign collaboration.

C. **Third Phase — 1991 onwards**

A new phase in FDI began in 1991 through the announcement of new Industrial Policy of 1991. The decade of 1990s onward saw 180 degree change in the policy of the GoI towards foreign capital. After following a somewhat restrictive policy towards FDI in the first 40 years of Independence, India has liberalized her FDI policy regime considerably since 1991, besides opening new sectors to FDI, such as banking, mining, insurance telecommunications etc. Besides dismantling of controls and regulations, government allowed huge concessions and relaxations. Today a red carpet has been laid for FDI.

The main measures announced since 1991 to give a boost to FDI are as follows:

(a) Many industries were deregulated and opened to FDI. The Foreign Investment Promotion Board (FIPB) was allowed to sanction even 100 per cent equity participation in cases where Indian companies were unable to raise funds.

(b) Procedures for obtaining permission were greatly simplified by listing industries that are eligible for automatic approval up to specified levels of foreign equity. For example, 51 per cent foreign equity was permitted with automatic approval in industries producing intermediate and capital goods;

(c) Besides FDI, portfolio equity investment from abroad was also given an impetus. In 1993, foreign institutional investors were allowed to purchase shares of listed Indian companies in the stock market, opening a window for portfolio investment in existing companies. Thus FIIs were allowed to operate in the Indian capital market and Indian companies were allowed to raise capital in the international market. These policy changes have led to a sharp increase in FDI flows from almost nothing in 1990 to over $35 billion in 2014-15, but the levels are still much low those in China.

However, from 1995 onwards a series of more liberalizing measures were taken. These are:

(d) introduction of dual route of approval of FDI— RBI's automatic route and FIPB route;

(e) automatic permission for technology agreements in high priority industries;

(f) removal of restriction of FDI in low technology areas as well as liberalization of technology imports;

(g) granting permission to NRIs and overseas Corporate bodies to invest up to 100 per cent in high priority sectors;

(h) hike in foreign equity participation limits to 51 per cent for existing companies;

(i) granting foreign equity participation up to 100 per cent under the automatic route for projects relating to electricity generation, transmission and distribution as also roads and highways etc.;

(j) increasing the ceiling for FDI under automatic route in oil refining from 49 per cent to 100 per cent; and

(k) Allowing 100 per cent FDI in telecommunication sector, tea sector, airports, etc.

Recent Reforms in FDI Policy: An investor-friendly FDI policy has been put in place in recent times, whereby FDI up to 100 per cent is permitted under the automatic route in most sectors/activities except in defence where FDI cap has been

kept at 49 per cent in 2014. Higher FDI has also been allowed on a case-to-case basis. FDI up to 100 per cent through the automatic route has been permitted in construction, operation, and maintenance of identified railway transport infrastructure. Norms related to minimum land area, capitalization, and repatriation of funds for FDI in construction development projects have been further liberalized.

The following sectors where FDI is completely banned are: retail trading (excepting single-brand wholesale trading), atomic energy, lottery, real estate business, chit fund business, cigarette manufacturing, etc. On March 30, 2016, the government allowed 100 per cent FDI for marketplace e-commerce for global retail players like Walmart, eBay etc.

During 2015-16, FDI in the pension sector has been revised to permit foreign investment up to 49 per cent, with 26 per cent under automatic route. Manufacturing of medical devices and white lebel ATM operations have been opened up to 100 per cent FDI under automatic route.

The result from this FDI policy reforms is that FDI as a percentage of gross domestic investment (GDI) and GDP has grown rapidly between 1991-92 and 2015-16. Despite this rapid expansion, however, FDI inflows to India remain low compared to other countries of Asia. Ironically, despite investment-friendly liberal FDI regime, India is ranked 'fourth' on the basis of 'FDI Restrictiveness Index'.

In all, the Indian government has created a healthy atmosphere for FDI infows. In fact, the liberal policy towards FDI designed since mid-1991 has helped attract foreign investors significantly. Though the actual inflow of FDI has not picked up so fast, it has improved and significantly strengthened the capital account of the BoP of the country.Neverthiless, India is still on a lower ladder among some major FDI receiving countries in Asia.

6.8 FII Policy

The entry of FIIs after 1992-93 is a follow up of the recommendation of the Narsimham Committee Report on Financial System. While recommending their entry, the Committee only suggested that the capital market should be gradually opened up to foreign portfolio investments.

From September 14, 1992 with suitable restrictions, FIIs were permitted to invest in all the securities traded on the primary and secondary markets, including shares, debentures and warrants issued by companies which were listed or were to be listed on the Stock Exchanges in India.

The evolution of FII Policy is summarized below:

1) Before 1992, only Non-Resident Indians (NRIs) and Overseas Corporate Bodies were allowed to undertake portfolio investments in India. Thereafter, the Indian stock markets were opened up for direct participation by FIIs. They were allowed to invest in all the securities traded on the primary and the secondary market including the equity and other securities/instruments of companies listed/to be listed on stock exchanges in India.

2) The Indian Government allowed in August 1998 Indian companies to issue bonus shares or right shares to the Global depository Receipt ((GDR)/ ADR (American Depository Receipt) holders after obtaining necessary permission.

3) Subsequently, the FIIs were allowed to invest in the securities of unlisted companies and in the treasury bills and government securities. The norms for FIIs' investment in convertible bonds were also liberalized.

4) 100 per cent FII debt funds have been permitted to invest in unlisted debt securities of the Indian companies. Moreover, authorized dealers in the foreign exchange market have been permitted to provide forward cover to FIIs in respect of their fresh equity investments in the country.

5) FII investment upto 23 per cent is permitted in infrastructure companies in the securities market

6) FIIs are allowed to invest USD 3.2 billion in Government Securities (limits were raised from USD 2 billion.).

As is evident from the above, the evolution of FII policy in India has taken the form of (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalization of investment instruments accessible for FIIs.

6.9 Conclusion

Making an essential difference between ISI strategy and export–led growth, this unit has discussed the trade policies so far taken in the Indian economy. After analyzing the major trade policies before 1991, which were restrictive and inward-looking under the premises of ISI strategy as well as the trade policies in the post-liberalization period, which were growth –oriented and outward looking including recent policy measures in this respect of GoI, the paper briefly goes on to describe the FDI policies since 1950 to the present time and give a bird's eye view of FII policy starting from 1992-93, which were mostly based on export-led growth.

6.10 Key Terms Simplified

ISI: ISI is a trade and economic policy based onthe premise that a developing country should attempt to substitute products it imports with domestically produced products.

FDI & FII: FDI is a long term international capital movement directly made in development projects in other countries. It refers to movement of investible funds or finance. If the lender has operating control over the asset's use, then investment is direct, otherwise it is portfolio or the FII.

Regionalism:Regionalism is a term used in the GATT and the WTO to refer to all Preferential Trade Agreements (PTAs). PTAs are defined as groupings of countries which are formed with the objective of reducing barriers to trade between member countries. These groupings of countries may be concluded between countries not necessarily belonging to the same geographical region. PTAs allow groups of countries to negotiate rules and commitments that go beyond WTO rules. For example, these agreements can include Bilateral Investment Treaties, labour and environmental rules, etc.

Bilateralism: Bilateralism refers to agreement on trade concessions between two countries. Examples are: EHS between India and Thailand. Multilateralism, on the other hand, are guided by the rules and regulations of the WTO founded on the core principle of non-discrimination.

6.11 Questions with Answer Hints

Questions Carrying 2.5 marks

1) **Write down the essential difference between import substitution and export-led growth strategy.**

   [Ans: See Section 6.3.1 and 6.3.1]

2) **What is meant by current and capital account convertibility ?**

   [See Section 6.4]

3) **What was the attitude of the government during the 1970s towards FDI and foreign collaboration?**

   [Ans: The attitude of the government was one of restricted or limited collaboration in sophisticated and high priority areas where competence of Indian technologies was inadequately developed.]

Questions Carrying 5 marks

1) **What is trade policy? Why is a 'trade policy' important for an economy?**

   [Ans: Laws related to the exchange of goods and services involved in international trade including taxes, subsidies and import/export regulations. The trade policies are specific to each country and are formulated by its public officials. Their aim is to boost the nation's international trade.

   For achieving good economic growth, trade between countries is essential as any economy cannot have the comparative advantage required to produce all that goods that it requires. The imports made need to be financed for which in order to earn the necessary foreign exchange there should be corresponding exports. Thus, policy to promote exports and imports, or to engage in trade beneficial for the economy, is very crucial. In its absence, a trade imbalance would disrupt the economy in its growth path.]

2) **What is the underlying philosophy behind the ISI strategy? On what foundation is it based?**

   [Ans: It is based on the premise that importing economies should substitute the products being imported with what can be domestically p.duced as their

substitutes. Its foundation is based on the Prebisch-Singer hypothesis which states that in the long run the economies exporting the primary commodities would stand to lose in terms of the ToT (terms of trade) advantage in comparison with the economies exporting manufacturing goods.]

3) **What are the three basic tenets of ISI strategy and how do they begin to work against the economy practicing the ISI approach?**

   [Ans: The ISI strategy works on three tenets viz. promotion of domestic industries, protection from foreign products through high tariff rates and quotas and a monetary policy practicing multiple exchange rates and control over foreign exchange. Though the measures are basically aimed at promoting the domestic industrial base, in effect they induce them to remain uncompetitive and inefficient.]

4) **What are the essential difference between current account convertibility and capital account convertibility (CAC)? Write down the cost and benefits of CAC?**

   [Ans: See Section 6.4]

5) **What major strides were initiated to encourage the flow of FDI in the post-1991 years in India?**

   [Ans: Establishment of Foreign Investment Promotion Board to allow 100 percent equity participation, simplification of procedures to allow 51 percent foreign equity by merely listing such industries where this was allowed, allowing the FIIs to operate in the Indian capital market, allowing the Indian companies to raise capital in the international market, introduction of a dual RBI automatic route for FDI, removal of restrictions on FDI in low technology areas, etc.]

6) **Compare two options of foreign inflow in India, FDI and FII**

   Or

   How is FII different from FDI?

   [Ans Hints: FDI refers to investment in development projects (like infrastructure projects) directly. The capital invested remains in the domestic economy with only the profits made repatriated. FII, on the other hand, relates to investment of capital in the equity markets including securities

(i.e. stock exchanges) where capital can leave the economy over night. Investment in FII only reflects the investors sentiment or confidence in the stock market whereas FDI shows a long term commitment linked to the growth prospects in the economy in which investment is made.]

7) Write a brief note on the evolution of FII Policy of India.

[Ans: See section 6.8]

8) In what respects would you summarise the opening up of the Indian markets to the FIIs?

[Ans. Hints: The evolution of FII policy in India could be summarised by way of: (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalisation of investment instruments accessible to FIIs.]

Questions Carrying 10 marks

1) **What factors led to the adoption of the Export-led Growth strategy by several economies in the late 1960s? What factors indicate the seriousness of India's adopting the same in the post-1990s?**

[Ans Hints: The loss of confidence in the state-led interventionist approach, failure of ISI to address the Latin American debt crisis and the developments in the ICT sector enabling the setting up of manufacturing sector anywhere where there is a comparative advantage in production. On India's part, phased removal of QRs, progressive reduction of tariffs and subsidies, liberalisation measures in the trade and payments regime, adoption of various export incentive measures, movement towards market based exchange rates, etc. indicate the seriousness in its adopting the export-led growth strategy.]

2) What are the essential features of trade policy before economic reforms in India?

[Ans: See Section 6.5]

3) What are the major changes that are introduced in the trade policy after reforms?

[Ans: See Section 6.6]

4) **What is SEZ? Explain the reason for which it was introduced in India?**

[Ans: SEZs refers to areas within a country where some of the economic laws and restrictions of the land are relaxed with the purpose of giving incentives to investors. The usual relaxations are with respect to taxes, import and export duties and labour laws. At present, an ever-increasing number of less developed countries all over the globe are finding the SEZs an integral part of their development programmes.

Reasons: The success of the Chinese SEZs in the 1980s has led India to set up its own. Besides, an SEZ makes concentration of a number of similar production units within a small geographical area possible. This, in turn, has a number of benefits. When similar firms are located together, there is immense possibility of learning from one another, both directly and indirectly. On the other hand, consumers and distributors of final products also find it convenient to find a number of production units located in one place ensuring variety, competitiveness and efficiency.

5) **Mention the various new initiatives, provisions and procedures to provide better condition and ease in foreign trade.**

[Ans: See New Trade Policy 2015-20]

6) **How does FDI in India undergo under different Phases? Write in detail.**

[Ans:See Section 6.7]

7) **Distinguish between regionalism and bilateralism.**

[Ans: See Section 6.10]

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