1

OVERVIEW OF INDIAN ECONOMY

Every economy in the world has its own characteristics or features by which it is known or identified. Economies are compared with each other on the basis of these features. India as a distinct nation came into existence on 15th August 1947, called the independence day of India which marked the end of British rule over India. After that, Independent India has completed 66 years of self rule on 15th August 2013. This period is long enough to evaluate the position and performance of the country to enable comparison with other countries in the world as well as evaluate its own progress over the years. With this view in mind the current lesson provides the features of Indian economy.

OBJECTIVES

After completing this lesson, you will be able to:

- describe the characteristics or features of Indian economy;
- explain the problems faced by Indian economy;
- explain the role of agriculture in India; and
- describe the growth of industry in India.

1.1 FEATURES OF INDIAN ECONOMY

Let us now list the features of Indian economy as follows:

(i) Low per capita income

(ii) Heavy population pressure

(iii) Dependence of population on agriculture

(iv) Poverty and Inequality income distribution

(v) Higher level of capital formation which is a positive feature

(vi) Planned economy

let us discuss these points one by one.

(i) Low per capita income

India is known in the world as a country with low per capita income. Per capita income is defined as the ratio of national income over population. It gives the idea about the average earning of an Indian citizen in a year, even though this may not reflect the actual earning of each individual. India's per capita income for the year 2012-2013 is estimated at ₹ 39,168. This comes to about ₹ 3,264 per month. If we compare India's per capita income with other countries of the world then it can be seen that India is well behind many of them. For example, the per capita income of USA is 15 times more that of India while China's per capita income is more than three times of India.

(ii) Heavy population pressure

India is world's second largest populated country after China. As per 2011 census India's population stands at more than 121 crores. It increased at a rate of 1.03 percent during 1990-2001. The main cause of fast rise in India's population is the sharp decline in death rate while the birth rate has not decreased as fast. Death rate is defined as the number of people died per thousand of population while birth rate is defined as the number of people taking birth per thousand of population.

In 2010, the birth rate was 22.1 persons per one thousand population while the death rate was only 7.2 persons per one thousand population. Low death rate is not a problem. In fact it is a sign of development. Low death rate reflects better public health system. But high birth rate is a problem because it directly pushes the growth of population. After 1921, India's population increased very fast because birth rate declined very slowly while death rate declined very fast. From 49 in 1921 the birth rate declined to 22.1 in 2010 while during the same time period, death rate declined from 49 to 7.2. Hence the population growth was very rapid in India.

Heavy population pressure has become a major source of worry for India. It has put burden on the public exchequer to mobilize enough resources to provide public education, health care, infrastructure etc.

(iii) Dependence on Agriculture

Majority of India's working population depend on agricultural activities to pursue their livelihood. In 2011 about 58 percent of India's working population was

engaged in agriculture. In spite of this, the contribution of agriculture to India's gross domestic product is a little over 17 percent. A major concern of agriculture in India is that productivity in this sector is very less. There are many reasons for this. There is heavy population pressure on land to sustain huge number. Due to population pressure on land the per capita availability of land area is very low and not viable for extracting higher output. Two, since per capita land availability is less, a majority of people are forced to become agricultural labour working at low wages. Three, Indian agriculture suffers from lack of better technology and irrigation facilities. Four, mostly people, who are not educated or not trained properly, are engaged in agriculture. So it adds to low productivity in agriculture.

INTEXT QUESTIONS 1.1

Fill in the blanks

1. India's per capita income is ..... of that of China?
   (a) twice (b) one third
   (c) same as (d) none of the above
2. USA's per capita income is ..... of that of India?
   (a) 15 times (b) 10 times
   (c) less than (d) none of the above
3. As per 2011 census, India's population stands at
   (a) more than 100 crore (b) less than 100 crores
   (c) more than 121 crores (d) none of the above
4. India's Birth rate in 2010 was:
   (a) 20.2 (b) 21.2
   (c) 22.1 (d) 23.2
5. India's death rate in 2010 was
   (a) 7.2 (b) 7.4
   (c) 7.8 (d) 7.9
6. India's population growth was rapid because
   (a) death rate is more than birth rate
   (b) birth rate is more than death rate
   (c) birth rate is same as death rate
   (d) none of the above

7. In 2011, ... percent of India's working population was engaged in agriculture?

   (a) 70 (b) 80

   (c) 68 (d) 58

8. Contribution of agriculture to India's national income in 2011 was around

   (a) 10 percent (b) 20 percent

   (c) 17 percent (d) 25 percent

(iv) Poverty and inequality

Another very disheartening thing about India is that it has world's largest number of poor people. As per reports of government of India, in 2011-12 about 269.3 million people in India were poor. This was about 22 percent of India's population. A person is termed poor if he/she is not able to consume the required amount of food to get a minimum calorie value of 2400 in rural area and 2100 in urban area. For this the person must earn the required amount of money as well to buy the food items. The government has also estimated that the required amount of money is ₹ 816 in rural area and ₹ 1000 in urban area per head per month. This comes to about ₹ 28 in rural area and ₹ 33 in urban area per head per day. This is called poverty line. This implies that 269.9 million people of India were not able to earn such little amount in 2011-12.

Poverty goes with inequality in income and wealth distribution. Very few in India posses materials and wealth while majority have control over no or very little wealth in terms of land holding, house, fixed deposits, shares of companies, savings etc. Only top 5 percent of households control about 38 percent of total wealth in India while the bottom 60 percent of household has control over only 13 percent of the wealth. This indicates concentration of economic power in a very few hand.

Another issue linked to poverty is the problem of unemployment. One of the most important reasons of poverty in India is that there is lack of job opportunities for all the persons who are in the labour force of the country. Labour force comprises of the adult persons who are willing to work. If adequate number of jobs are not created every year, the problem of unemployment will grow. In India every year large number of people are added to the labour force due to increase in population, increase in number of educated people, lack of expansion of industrial and service sector at the required speed etc.

So far we discussed the negative features. There are certain positive features of Indian economy as well. They are discussed below.

(v) Higher rate of capital formation or investment

At the time of independence, one of the major problem of Indian economy was deficiency in capital stock in the form of land and building, machinery and equipment, saving etc. In order to continue the cycle of economic activities such as production and consumption, a certain ratio of production must go towards saving and investment. However, the required ratio was never generated in the first four to five decades after independence. The simple reason being higher consumption of necessary items by the population of whom most happened to be poor and lower middle income class. Collective household saving was very less due to this. Consumption of durable items was also very less. But in recent years things have charged. Economists have calculated that in order to support the growing population, India requires 14 percent of its GDP to be invested. It is encouraging to note that the saving rate of India for the year 2011 stands at 31.7 percent. The ratio of gross capital formation was 36.6 percent. This is possible because people are now able to save in banks, consume durable goods and there has been large scale investment taking place on public utilities and infrastructure.

(vi) Planned economy

India is a planned economy. Its development process has been continuing through five year plan since the first plan period during 1951-56. The advantage of planning is very well known. Through planning the country sets its priorities first and provides the financial estimates to achieve the same. Accordingly efforts are made to mobilise resources from various sources at least cost. India has already completed eleven five year plan periods and the twelfth plan is in progress. After every plan a review is made analysing the achievements and short falls. Accordingly, things are rectified in the next plan. Today India is a growing economy and recognised every where as a future economic power. The per capita income of India is growing at a higher rate than before. India is seen as a big market for various products. All these are possible due to planning in India.

1.2 ROLE OF AGRICULTURE IN INDIA

Agriculture is one of the most important sectors of Indian economy. It is the supplier of food and raw materials in the country. At the time of independence more than 70 per cent of India's population depended on agriculture to earn livelihood. Accordingly the share of agriculture in the national product/income was as high as 56.6 per cent in 1950-51. However with development of industries and service sector during the plan periods, the percentage of population depending on agriculture as well as the share of agriculture in the national product has come down. In 1960, the percentage of labour force engaged in agricultural activities was 74 which gradually came down over the years to 51 per cent in 2012. In 1960 the share of labour force in industry and service sectors stood at 11 and 15 percent

respectively. But in 2012 these shares increased to 22.4 and 26.5 percent respectively. It has been observed in most of the economies that along with economic development shift in labour force from agriculture to industry and service sector takes place.

Agriculture is the source of food supply. The production of food grains has increased from nearly 55 million tonnes in 1950-51 to 259 million tones in 2012-13. Because of the growth in food grain production, India's dependence on import of food grains has declined and almost become nil. Keeping in view the rapid growth in India's population, increase in food grain was a necessity which the country achieved significantly. Except for pulses, increase in food grains has been mode possible by increase in cereals and various cash crops.

Agriculture is also a major source of foreign exchange earning through export. The share of agriculture in India's export in the year 2011-12 was 12.3 percent. The major items of export include tea, sugar, tobacco, spices, cotton, rice, fruits and vegetables etc.

1.3 GROWTH OF INDUSTRY IN INDIA

Industry or the secondary sector of the economy is another important area of economic activity. After independence, the government of India emphasized the role of industrialization in the country's economic development in the long run. Accordingly, the blue print for industrial development was made through the Industrial Policy Resolution (IPR) in 1956. The 1956 policy emphasized on establishment of heavy industries with public sector taking the lead in this area. Adoption of heavy or basic industries strategy was justified on the ground that it will reduce the burden on agriculture, enable growth in the production of consumer goods industries as well as small industries that are helpful for employment generation and achieving self reliance. After the adoption of the IPR, 1956 there was tremendous growth in industrialization during the second and third plan periods i.e. 1956-61 and 1961-66. Public sector contributed maximum to this growth. But towards the end of 1960s, investment in industries was reduced which adversely affected its growth rate. In the 1980s, this trend was reversed and investment in industries was increased by making the infrastructure base such as power, coal, rail much stronger.

In early 1990s it was found that the public sector undertakings were not performing upto expectation. There has been reports of mismanagement in these under takings resulting in loss. So in 1991 the government of Indian decided to encourage the role of private sector in industrial development, remove the rigid licence system which is known as liberalization and allow international players to compete in the domestic country as well as domestic players to explore foreign territories. The aim of taking all these steps was to strengthen the process of

industrialization in the country. Such a model of industrial development is called Liberalization, Privatization and Globalization (LPG) model.

After the adoption of this new policy in 1991, there has been phases of growth followed by slowdown in the industrial development process. In the early years of 1990s there was significant growth in industrialization due to increase in investment in infrastructure, reduction in excise duty, availability of finance etc. But towards the end of 1990s the growth rate slowed down due to stiff competition from international companies, inadequate infrastructure support etc. However, in the beginning of the new millennium, between 2002-08 there was again some recovery due to increase in saving rate from 23.5 percent in 2001-2 to 37.4 percent in 2007-08. Even the competition from the foreign companies helped during this phase as the domestic companies could create enough internal strength in term of quality control, finance and customer care etc. to withstand the competition. However after 2008-09 there was some slow down in industrial growth due to rise in petroleum price, interest rate and borrowings from abroad which has created lot of liabilities for the domestic companies.

INTEXT QUESTIONS 1.2

1. What was share of agriculture in India's national income in 1950-51?
2. With economic development, labour force tend to shift from industry to agriculture. True or False
3. What was the share of agriculture in India's export in 2011-12?
4. Give the full form of LPG?
5. The industrial policy of 1956 emphasized on the strategy of
   (a) Light industries (b) small and medium industries
   (c) Heavy industries (d) none of the above

WHAT HAVE YOU LEARNT

In this lesson you have learnt that

- India is a developing economy with the promise to grow in future.
- India is currently among those countries whose per capita income is low.
- India is suffering from heavy population pressure
- A majority of india's populaiton is dependent on agriculture.
- There is high absolute poverty in India

- The gap between rich and poor is substantial in India
- Some positive features of Indian economy are
  - India's saving rate is high
  - Five year plannning in India is running successfully

TERMINAL EXERCISE

Short Answer Type Questions

1. Give one positive and two negative features of Indian Economy.
2. Give two reasons for low productivity in agriculture in India.
3. What is main cause of increase in population in India?
4. Why is India called planned economy?
5. Define poverty line in rural area.

Long Answer Type Questions

1. India suffers from heavy population pressure. Explain.
2. Explain two positive features of Indian economy.
3. India's per capita income is low? Do you agree. Give reasons.
4. Describe India as agricultural country.
5. Briefly discuss the poverty and inequality situation in India.
6. Explain the role of agriculture in Indian economy.
7. Explain the growth of industrialization in India?

ANSWERS TO INTEXT QUESTIONS

1.1

1. (b) 2. (a) 3. (c) 4. (c) 5. (a) 6. (b) 7. (d) 8. (c)

1.2

1. 56.5 percent
2. False
3. 12.3 percent
4. Liberalization, Privatization and Globalization
5. Heavy industries

Notes

2

ECONOMIC PLANNING IN INDIA

India is a vast country with multiple problems faced by its population. The British ruled the country for nearly two centuries and exploited its resources for their benefit leaving the country reeling under absolute poverty. When the British left India in 1947 there was nothing to be proud of or be happy except for the 'freedom'. The problems were many before the Indian government. Besides mass poverty there was the problem of food shortage and inflation. Illiteracy, lack of health care, lack of infrastructure etc. were other serious problems facing the country. As a long term strategy. 'Planning' for economic development was the answer to solve these problems.

OBJECTIVES

After completing this lesson, you will be able to:

- define "Planning";
- explain the need for planning;
- list out the objectives of planning;
- describe the strategy of planning in India;
- explain new economic policy;
- point out the targets set by our planners in terms of various objectives of planning;
- explain the achievements made with respect to the plan objectives; and
- realise the short comings or unfulfilled part of the objectives.

2.1 MEANING OF ECONOMIC PLANNING

Economic planning is a process which involves the following steps:

(i) Preparing a list of the problems facing the economy .

(ii) Rearranging the list on the basis of priority. The top priority issue which needs to be addressed immediately should be placed at number one and so on.

(iii) The next step is to identify the problems which are to be solved in the immediate short run and the other problems which are to be addressed over the long period.

(iv) Fixing a target to achieve the desired goal. The target could be a specified time period within which the problem must be solved. If the problem is to be addressed over long run, then it must be made clear that how much of the problem be solved in the first period (say a year or six months) and so on. Secondly the target could be a certain quantity to be achieved. Say in case of production, the government can fix some target in terms of quantity.

(v) Estimating the amount of resources needed for achieving the target. Resources include financial resource, human resource, physical resource etc.

(vi) Mobilizing the resources is another important task. This means that the planners must know the sources of arranging the required resources. For example, in case of financing the plan, the planners must make the budget and spell out the different sources of finding. When the government makes plan, one of its major source of getting funds in the tax revenue. For a business person, one of the sources of finance is the loan from bank. When various sources of funds are available then the planner must also decide as to how much fund to be collected from each of these sources.

Use of the human resource is another important task to execute the plan proposal. The planner must estimate the type of man power and the number of persons required to carry out the task. A proper estimate on this requirement should be given at the outset. Similarly proper estimate of physical resources should also be provided. Physical resources include office buildings, vehicles, furniture, stationeries etc.

(vii) Once the resources are arranged, implementation and execution process starts in an organize manner to achieve the desired goal. To make sure that everything is running smoothly and to rectify mistakes if any or to modify the style of working to accommodate any change, periodic review must be done till the final achievement is realised.

2.2 ECONOMIC PLANNING IN INDIA

India adopted a system of five yearly planning to address its various socio-economic problems. You have already been told about the problems of Indian

economy at the time of its independence. To remind, these problems include mass poverty and inequality, low productivity in agriculture and storage of food grains, lack of industrial and infrastructural development etc. Since these are to be solved over the long period, Indian government adopted five year plan starting from first year plan in 1951 development. The idea was to make a list of important problems to be solved keeping in view the given resources and the capacity to arrange the resources. Then make a review after five years of what has been done and rectify the mistakes accordingly in the next five year plan period and so on.

Some of the great architects of Indian planning include Jawaharlal Nehru, P.C Mahalonobis, V.R Gadgil, V.K.R.V Rao. After becoming the first prime minister of independent India, Nehru established the Planning Commission in 1950. The major function of the Planning Commission was to formulate plans keeping in view the resources of the country and suggesting the best methods to utilize them effectively and in a balanced manner. Planning commission prepared the first five year plan (FYP) for the period 1951-1956. By 2014, India has already experienced more than sixty years of planning with eleventh five year plans being completed are twelfth FYP continuing.

2.3 OBJECTIVES OF PLANNING IN INDIA

The various objectives of economic planning in India are drawn keeping in view its socio-economic problems. Accordingly the objectives as follows:

1. Economic growth
2. Increase in employment
3. Reduction in inequality of income
4. Reduction in poverty
5. Modernization of the economy
6. Ensuring social justice and equality.

Let us discuss these objectives one by one .

1. **Economic Growth :** The objective of achieving economic growth implies that the real national income and per capita income must grow every year at a targeted rate. Real national income is the measure of national income at a given years price or at a constant price. Real per capita income is the average income of individuals in the economy. It is argued that in order to achieve higher standard of living for each individual /household and the society as a whole , both per capita income and national income must grow in real terms. Since income represents purchasing power, increase in income will enhance the purchasing power of people and the country. When purchasing power will

increase then individuals can buy more goods and services to satisfy their wants. The country as a whole can pay for its purchases from abroad called import. Increase in real income also means that the output level or quantity of output is higher than before. Here output includes output in different sectors of the economy such as agricultural output, industrial output and services to satisfy the needs of India's growing population increase in output every year has to be achieved. To achieve higher rate of output the economy must increase its rate of investment to create infrastructure and capital stock. Infrastructure includes power projects, roads, railways, airports, ports, telecommunication network, buildings etc. Capital stock includes plant, machinery, banking and insurance etc. Investment in all these things is necessary to achieve economic growth in real income, hence the planners of the country set a target for growth in each five year plan keeping in view the growth of population and demand for goods and services etc.

2. **Increase in Employment:** Employment refers to engagement of the labour force in gainful economic activity such as production of goods and services. Income is generated through the production process where the production process involves employment of factors of production provided by the households. You know that factors of production include land, labour, capital and organization/entrepreneurship. These factors are owned by the households of the country. As factors are scarce resources and needed to produce goods and services, it is important for the government to create opportunities where in they can be properly used/utilized. The production capacity of an economy depends on the amount of the factor resources it possesses. The required amount of output can be generated if these factors of production get employment. The value of the output then can be distributed among the factors as their income in the form of wage for labour, rent to the owner of land and building, interest to the owner of capital and profit to the entrepreneur. If the country is not able to create employment opportunities to gainfully engage the factors of production, the required amount of output can not be produced and hence income can not be generated. Take the example of labour resources in the country. You know that the population of the country supplies labour force who are in the age group of 15 to 59 years. Every year due to increase in population the number of people in the labour force is also increasing. Most of them are also educated. If there is no enough scope to get employment then they will remain unemployed and unutilized. Infact the unemployment situation in India is very bad. Besides causing increase in consumption without corresponding increase in production, unemployment also is a cause of various social problems such as poverty and crime etc. So planners of the Indian economy put creation of employment as a major objective of five year plans.

INTEXT QUESTIONS 2.1

1. Economic growth means
   (a) Increase in real national income
   (b) Removal of inequality
   (c) Increase in price level
   (d) None of the above
2. National income can be increased by
   (a) Increase in population
   (b) Increase in the rate of investment
   (c) Increase in unemployment
   (d) Decrease in price level
3. Who are the owner of factors of production
   (a) Government
   (b) Rest of the world
   (c) Households
   (d) Firms and industries
4. Labour force comes from the population in the age group of
   (a) 4 to 14
   (b) 60 to 75
   (c) 10 to 15
   (d) 15 to 59

3. **Reduction in Inequality of Income :** India is a country with diverse economic standard of its population. This means that in terms of income level, India lacks uniformity. A large section of India's population belong to lower income group and termed as poor where as a few are very rich with very high level of income. Income disparity is a major concern of the social angle, women are the worst affected in terms of income standard irrespective of their caste or religion. Similarly the scheduled caste and scheduled tribe population belong to the marginalized section of Indian society as they are at the bottom of the pyramid of development. One of the major reasons of inequality in income is the unequal distribution of asset holding such as per capita land holding, possession movable and immovable property from inheritance etc. A majority of India's population live in rural area and work in agriculture. But a few are big land lords and majority are marginal or small farmers and agricultural labourers. Agricultural labourers are so called because they do not have their own land

to cultivate and move from one place to another in search of job on a daily or weekly wage basis. Their situation in worse because of their own illiterary and lack of scope to organize themselves. One to their low income they do not have anything to begin to their reset generation on the otherhand landlords enjoy higher returns to their property and due to existence of law of inheritance the property remains with their future generations. Hence, rich remains rich and poor remains poor in the country due to possession and lack of private property respectively. India is badly affected due to this inequality . The poor people are not able to support the market due to lack of purchasing power where too much purchasing power with the rich has caused wasteful consumption to increase. Most of the social evils are created due to inequality. Hence, our planners aimed at reducing the inequality in income distribution through planning.

4. **Reduction in Poverty :** Another major objective of planning in India is "reduction In poverty". At the time of independence more than fifty percent of India's population was poor. By the year 2014, nearly 27 to 28 percent of India's population is under poverty as per governments estimates. You will come to know about the manner in which poverty is estimated in India in the lesson on poverty and employment. For the time being let us confine our notion of poverty to the situation where in an individual is unable to satisfy his/her basic minimum needs of life. There are lot of people in the country who are not even getting a square meal a day. Lack of employment is a major cause of poverty . It is aggarated by unequal distribution of national wealth and income. Poverty is termed as a curse on human dignity and it has seriously tarnished the image of India in the world. Developed countries do not count India seriously due to its inability to remove poverty. It is proper planning to remove poverty completely from the country.

5. **Modernisation of the Economy :** India has been a country of continuous exploitation by foreign powers such as the Mughals who ruled for more than two hundred years and the British who also ruled the country for another two hundred years. The British in particular, left the country in dine poverty and underdevelopment when they handed over power to Indian government in 1947. Because of the historical reasons Indian economy could not rise from its traditional level of functioning. It remained an agrarian economy and industrially backward. There was no development in now technology and technological upgradation. Lack of modern technology is a major reason for Indian economy to suffer from low productivity in agriculture and lack of industrial development. At the time of independence and for many more years after that, the major contributor to India's GDP because of underdeveloped industrial and service sector. Combined with his lack of better education and skill development of the population, the occupational structure has also remained biased towards agriculture. Hence, to reverse such trend it is necessary to change the structure

of GDP of India by improving the quality of human resources and developing industries and service sector. This can be done by modernization of the economy.

6. **Ensuring Social Justice and Equility :** Indian planning also aimed at achieving a socialistic pattern of society. It can be achieved by ensuring its population social justice and equity. In fact all the objectives said above are necessary to achieve social justice. But the sufficient condition for sustaining social justice and equitable distribution of income is to introduce reforms in various sectors by changing the age old systems which have perpetuated poverty and inequality and obstructed development of industrial and service sector or caused low productivity in agriculture. So the planners thought to introduce reforms in agriculture and economic policy so that they facilitate growth and equitable distribution of the benefits of development.

INTEXT QUESTIONS 2.2

1. One of the reasons of inequality in income is
   a. Existence of private property
   b. Lack of equal distribution of wealth
   c. Both of the above
   d. None of the above
2. Which of the following sector used to have larger share in India's GDP at the time of its independence
   a. Industry
   b. Agriculture
   c. Service
   d. None of the above

2.4 NEED FOR PLANNING

A major part of the question about need for planning has been answered in the meaning of planning itself described above. There we said that planning involves various steps for effective implementation and execution. Infact the number of problems facing Indian economy is very high. Each problem is complex in nature and cannot be solved in a short period. Take the example of the problem of poverty. There is no method by which this problems can be solved immediately. The government must collect data to know the number of people affected by poverty and its nature. Collection of data itself is a very huge task keeping in view India's vast geographical area and lack of accessibility to many areas. In a democracy , the government is duty bound to formulate policies after proper debate and discussions which takes time. Then mobilization of adequate resources and provision of

resources to continue the programme over a long period are two most important things to solve the problem of poverty. Without proper planning it cannot be done. Planning is also necessary to avoid wasteful expenditure, minimize cost meet the target in time and optimal use of resource.

2.5 STRATEGY OF PLANNING

By strategy we mean the use of correct approach /method/formula for achieving the target under planning. In the first plan period of 1951-56, no specific strategy was adopted during this time the government of India gave more emphasis to agriculture keeping in view the fact that majority of India's population depend on agriculture and there was the immediate issue of adequate food grain supply to address food shortage. The first five year plan was a great success as the targeted growth rate was achieved so India was in a position to adopt a long term strategy for planning in future. The development strategy was accordingly spelt out explicitly in the second plan period of 1956-61. The strategy was to give emphasis on – 1. Industrialization, 2. Within industrialization more emphasis on heavy industries.

2.6 JUSTIFICATION OF THE STRATEGY OF INDUSTRIALIZATION

In order to address the problems related to poverty, unemployment, economic growth, self reliance etc. The Indian planners adopted the strategy of industrialization in the country in general and establishing heavy and basic industries in particular. **The arguments offered in favour of industrialization and heavy industries strategy are as follows:**

1. India's population has been over depended on agriculture resulting in crowding of rural area, pressure on land, fragmentation of land holding, underemployment and unemployment with fixed amount of land available for cultivation, more population makes the amount of per capita availability of land very small or nil. This has resulted in inequality in distribution of land and ultimately affecting agricultural production badly. Industrialization is the only answer to shift the surplus labour engaged in agriculture to industries and release the pressure on land.
2. Industrial activities provide more job opportunities than agricultural activities. So industrialization will help getting employment for the jobless in the country.
3. Industrialization is necessary for the growth of agriculture itself . Industries use raw materials from agriculture and agriculture sector needs industrial equipment and machinery such as pump set, tractor, electricity etc.
4. Establishment of basic and heavy industries must be given priority. Examples

of basic and heavy industries are iron and steel, aluminium, heavy chemicals, heavy electrical etc. These are capital goods industries. Every economy needs such type of industries because they procedure machinery and equipment needed to establish other industries which can produce consumer goods for the satisfaction of wants. So the heavy industries are the backbone of the economy.

It should be noted that after the adoption of heavy industry strategy the government of India created public sector to establish and manage such industries. Some of the examples are steel authority of India limited (SAIL), Bharat aluminium company (BALCO), Bharat heavy electrical limited (BHEL), National aluminium company (NALCO), etc.

5. Besides heavy and basic industries, Indian government has also given emphasis on developing the micro, small and medium industries. These industries are defined on the basis of investment limit and can be established by private individuals. The advantage of these industries include: promotion of self employment as well as generating employment furthers, use of local resources, reducing inequality of income as they can be owned by individuals etc.

2.7 NEW ECONOMIC POLICY

As said above, the heavy industry strategy was implemented under the ownership and management of the public sector. The government made budgetary provisions for the public sector to create infrastructure and establish industries. The process went on for more than three decades. However, an evaluation of the performance of the public sector by the government itself found that barring a few, more than half of the public sector units have been running on losses. There was gross mismanagement and labour problems falling the public sector units. It was a major shock to the government to find all these short comings of public sector. The failure of the public sector on various fronts was seen as one of the major reasons for lack of all round development of the country in the area of industrialisation, removal of poverty and unemployment etc. Hence in 1991, the central government came out with a new economic policy resolution. The main feature of this policy are:

(i) Liberalization

(ii) Privatization

(iii) Globalization

The policy is also popularly called LPG model of development.

Meaning of and Need for Liberalization

Liberalization means withdrawal of controls and regulations by the government on establishment and running of industries in the country. Till 1991, all the public sector units were practically under the government even if they were called

autonomous bodies. There were lot of interventions by the ministries of the government in functioning of the public sector. This resulted in politilization and fall in professionalism and inefficiency. In order to overcome this problem the government decided to stop political intervention in the running of the public sector units by signing a memorandum of understanding. According to this the management of public sector units will be given autonomy to function but they will also be accountable.

Another important feature of liberalization is to do away with the licensing system. Earlier it was mandatory for any private individual or organization to seek permission from the government to start any industrial activity. There was heavy rush and long queue before the window of the concerned government department to get a license. This system slowly gave rise to delays in getting license. Government officials started taking bribes to clear files. Such corrupt practices brought bad name to the government. So in 1991 government decided to abandon the licensing system and allowed the interested individuals to start their industrial activity without any permission. However, permission is still required only in case of strategic industries such as medicine, defence equipments etc.

Meaning of and Need for Privatization

Privatization implies opening of the door of industrial activities to the private sector which was exclusively reserved for public sector only except nuclear enemy and defence. Since basic and heavy industries were strictly under public sector there was no room for competition. The quality of product and services deteriorated due to lack of competition from other companies. As a result the consumers were the major looser because they did not get quality products and the delivery system and other services were also very poor. So the government decided to allow and encourage the entry of private sector in the areas earlier reserved for public sector only. As a result private sector entry was seen in tele communication, civil aviation etc. The government also decided to disinvest some of the public sector companies by selling part of their assets to public.

Meaning of and Need for Globalization

Globalization is a process in which attempts are made by the different countries in the world to allow free flow of goods and services, labour technology, investments etc. India is a member of world trade organization (WTO) which is the nodal agency to promote globalization. In 1991 industrial policy, India adopted soft attitude towards foreign companies to do their business in India in order to promote competition. It also committed itself to abolish or reduce tariff on import of commodities. On the otherhand, India also adopted policies to promote exports. The government also allowed foreign companies to hold 51 percent share or more

in case of their collaboration with Indian companies so that they can function freely and as the owner. This will also facilitate transfer of latest technology into Indian territory.

INTEXT QUESTIONS 2.3

1. Liberalization aims at retaining the licencing system. True or False
2. Privatization policy will help in enhancing competition in the market. True or False
3. Globalization aims at imposing tariff on imported goods. True or False

2.8 ACHIEVEMENTS OF ECONOMIC PLANNING

Economic planning in India was started in 1951. As said earlier, there were certain objective of economic planning which include: achieving economic growth in terms of increase in real national and per capita income, increase in the level of employment, removal of inequality in the distribution of income removal of poverty, ensuring social and economic justice etc. By 2014, India has completed 63 years of planning and has entered into twelfth plan period. It is high time to know the achievements of planning keeping in view its objectives. Let us discuss them.

1. Achievements in Economic Growth

Achieving economic growth was a major objectives of planning. To achieve growth it is necessary to achieve increase in national income and per capita income as well as increase in production of agricultural and industry sectors. A review of different plans shows that, the first five year plan was a success as it achieved a growth rate of 3.6 per cent against a target of 2.1 percent growth rate in national income. Then except for 5th and 6th plans, during the other plan periods i.e. from second to eleven five year plan the targeted growth rate in national income could not be achieved.

Similarly, The per capita income has attained growth but the rate of growth has been very slow. For example : During the first 30 years of planning the per capita income grew at a very slow rate of 1.2 per cent per year. Recently this growth rate has increased to some extent. Coming to agriculture, the food grain production has gone up from 51 million tones at the beginning of the first plan to 257.4 million tones in 2011-12. Particularly the production of rice, wheat has been spectacular, but production of pulses and oil seeds etc., has been below target.

In terms of industrial development, a major achievement has been the diversification of Indian industries. There has been expansion of transport and communications, growth in generation and distribution of electricity and considerable progress in steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products.

During the planning period, the per capita availability consumer goods and other essential items has increased considerably. The goods worth mentioning here include-cereals, sugar, milk, egg, edible oil, tea, cloth and electricity.

2. Creation of Infrastructure

India has achieved a great deal in the area of creation of infrastructure. There has been large expansion roads and railway networks. Domestic air travel has increased significantly. Expansion of irrigation and hydro-electric projects has given boost to agricultural production. There has been growth in establishment of towns and cities due to increase in urban infrastructure. Communication network in the form of mobile telephony, internet has expanded tremendously.

3. Development in Education

One of the brightest areas of achievements of planning has been the development in education in India. There has been a significant increase in the enrolment of children at school level. There are 378 universities and 18,064 colleges in India which is a good development for higher education. India has also 1.52 lakh higher secondary and 10.43 lakh primary and upper primary schools.

4. Development of Science and Technology

Another significant area of achievement has been the growth in science and technology including the increase in technical and skilled manpower. India's march in space research has been noticed by the developed countries. It has made impact in the field of nuclear energy as well. Today India's Dependence on foreign experts for consultation has reduced. On the contrary it is now able to send technical experts to many foreign countries in the middle east, Africa etc.

5. Expansion of Foreign Trade

Due to industrialization in the country, India's dependence on import of capital goods has delivered. Many items, which were imported earlier are being produced domestically. Due to industrial progress, India is also able to export manufacturing and engineering goods.

INTEXT QUESTIONS 2.4

1. During which plan period, the actual growth rate of national income was more than the targeted growth rate.

   (a) Second plan (b) First plan

(c) Eleventh plan (d) Ninth plan

2. The growth rate of per capita income was higher in the beginning of plan period as compared to the period in the beginning of 21st century.

   True or False.

2.9 DRAWBACKS OR FAILURES OF PLANNING

Besides the achievements as told above, there are many unfulfilled tasks which the planning in India is yet to achieve completely.

1. Failure to Remove Poverty and Inequality completely :

Even after more than sixty years of planning, India has not been able to remove poverty completely. More than 240 million people are still under absolute poverty according to official estimates. The situation is worse in rural area. The government has introduced many antipoverty measures. But they have not been very successful so far.

Similarly, there is no significant improvement in the distribution of income and asset holding resulting in existence of inequality. The number of lanless agricultural labourers is very high as compared to the land holding population. The process of industrialization has helped some big industrial houses. This has resulted in concentration of economic wealth and power in few hands. This trend must be reversed if India wants to achieve equity and social justice.

2. Problem of Unemployment Persists :

Inspite of growth in income and output, India's employment situation has not improved much. Due to faster growth of population and labour force the situation has worsened further. According to official estimates India's unemployment rate is 6.6%. There is also huge backlog of unemployment due to lack of creation of required amount of jobs every year.

3. Failure to Curtail Corruption and Black Money :

Existence of rampant corruption in various public offices is a matter of grave concern in India. Common person faces a lot of problem in getting things done without giving bribe. Infact corruption has become a major political issue in elections. Various forms of corruption include paying or accepting bribe, non-payment of tax to government, political influence to get contract, secret understanding among sellers to increase price etc. Corruption has given rise to black money which is not accounted anywhere but very much in circulation. A sizeable portion of India's GDP is unaccounted . Black money creates inflation and

pressure in the society. It is also the root cause of inequality in distribution of income as people who possess black money grow richer at the cost of common citizen.

WHAT YOU HAVE LEARNT

- To solve its various economic problems India adopted Five year plans starting from 1951.
- The objectives of planning include : economic growth, increase in employment, removal of inequality and poverty and achieving social justice and equity.
- India adopted the strategy of industrialization with emphasis on basic and heavy industries to achieve the desired objectives.
- Even if the national income and the per capita income of India have recorded growth rates during planning period, the growth rates are below the target.
- India's progress in infrastructure, education, science and technology and foreign trade has been note worthy.
- Significant drawbacks of planning in India include inability to eradicate poverty, inequality and unemployment completely.
- Corruption in public places and prevalence of black money are major threats to development in India.
- In 1991 the government adopted new economic policy in order to rectify the problems associated with public sector to promote industrialization and to achieve faster economic growth.
- The new economic policy is called LPG model i.e. Liberalization, Privatization and globalization.
- LPG policy aims at removing licensing policy, promoting competition in the market and encouraging free trade in the world.

TERMINAL EXERCISE

Short answer type questions

1. Give the meaning of planning ?
2. Write two objectives of planning in India ?
3. Name two types of resources needed for planning with examples ?
4. Give one justification for adopting the strategy of industrialization ?

Long answer type questions

1. Explain the steps involved in the process of planning ?
2. Discuss the objectives of removal of inequality and poverty ?
3. Which strategy did India adopt to achieve the plan target and why ?
4. Explain the objectives of economic growth and increase in employment under planning in India ?
5. Explain 3 achievements of economic planning in India ?
6. Evaluate the performance of planning in removing poverty and inequality ?
7. Write a short note on achievement of planning with respect to economic growth?
8. Comment on the development of infrastructure in India?
9. Give reasons for adopting a new economic policy?
10. Explain the LPG model of the government to promote economic growth?

ANSWERS TO INTEXT QUESTIONS

2.1

1. (a) 2. (b) 3. (c) 4. (d)

2.2

1 (a) 2. (b)

2.3

1. False 2. True 3. False

2.4

1. (b) 2. False

MODULE - II
CURRENT CHALLENGES BEFORE THE INDIAN ECONOMY

3. Economic Growth and Economic Development
4. The Problem of Unemployment, Poverty and Inequality

3

ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

Economics is all about making smart choices to cope with scarcity. The most fundamental measurement used to evaluate the success in allocating the scarce resources is economic growth. Individuals monitor their **income** and the changing value of their **assets**. Businesses track their **profits** and their **market share**. Nations monitor a variety of statistics to measure economic growth such as **national income, productivity etc.** Moving beyond growth and productivity, some economists argue that any assessment of the nation's economy must also include measurements of distribution, equity, per-capita income etc. Further, the country should also focus on other needs of a society, like environmental justice or cultural preservation to sustain the economic growth process and allows an overall human development in the economy through creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment.

OBJECTIVES

After completing this lesson, you will be able to:

- define the meaning of Economic Growth and Economic Development, and their differences;
- explain the concept of Sustainable Development and Human Development;
- list out the factors affecting Economic Growth; and
- describe the broad Features of the Underdeveloped countries.

3.1 ECONOMIC GROWTH

The term economic growth is defined as the process whereby the country's real national and per capita income increases over a long period of time.

This definition of economic growth consists of the following features of economic growth:

- **Economic Growth implies a process of increase in National Income and Per-Capita Income.** The increase in Per-Capita income is the better measure of Economic Growth since it reflects increase in the improvement of living standards of masses.
- **Economic Growth is measured by increase in real National Income and not just the increase in money income or the nominal national income**. In other words the increase should be in terms of increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.
- **Increase in Real Income should be Over a Long Period**: The increase of real national income and per-capita income should be sustained over a long period of time. The short-run seasonal or temporary increases in income should not be confused with economic growth.
- **Increase in income should be based on Increase in Productive Capacity:** Increase in Income can be sustained only when this increase results from some durable increase in productive capacity of the economy like modernization or use of new technology in production, strengthening of infrastructure like transport network, improved electricity generation etc.

3.2 ECONOMIC DEVELOPMENT

Economic development is defined as a sustained improvement in material well being of society. Economic development is a wider concept than economic growth. Apart from growth of national income, it includes changes – social, cultural, political as well as economic which contribute to material progress. It contains changes in resource supplies, in the rate of capital formation, in size and composition of population, in technology, skills and efficiency, in institutional and organizational set-up. These changes fulfill the wider objectives of ensuring more equitable income distribution, greater employment and poverty alleviation. In short, economic development is a process consisting of a long chain of inter-related changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run.

The economic growth is a narrow term. It involves increase in output in quantitative terms but economic development includes changes in qualitative terms such as social attitudes and customs along with quantitative growth of output or national income.

Economic development without growth is almost inconceivable. The comparison between the two concepts is given in the following table:

3.3 COMPARISON CHART: ECONOMIC GROWTH VS. ECONOMIC DEVELOPMENT

	Economic Growth	Economic Development
Meaning	Economic growth refers to an increase in the real output of goods and services in the country.	Economic development implies changes in income, savings and investment along with progressive changes in socio-economic structure of country (institutional and technological changes).
Factors:	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.	Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population.
Measurement:	Economic Growth is measured by quantitative factors such as increase in real GDP or per capita income	The qualitative measures such as HDI (Human Development Index), gender- related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development.
Effect:	Economic growth brings quantitative changes in the economy.	Economic Development leads to qualitative as well as quantitative changes in the economy.
Relevance:	Economic growth reflects the growth of national or per capita income.	Economic development reflects progress in the quality of life in a country.

INTEXT QUESTION 3.1

1. "Economic Development is a wider concept than Economic Growth". Do you agree with the statement?

3.4 SUSTAINABLE DEVELOPMENT

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development includes the protection of future economic growth and future development. In other words, it means a better quality of life for everyone, now and for generations to come. Sustainable development includes the protection of future economic growth and future development. Growth is essential, but sustainable development requires it to be different. It must become more concerned about the physical environment not only to present generation, but to the future generation also. It means that the current consumption cannot be financed for long by increasing economic debt and ecological imbalance which future generation will pay. Sustainable development constantly seeks to achieve social and economic progress in ways that will not exhaust the earth's finite natural resources. Sustainable development is a process of development in which economic and other policies are designed to bring about development which is economically, socially and ecologically sustainable. The concept thus is pro-people, pro-job and pro-nature. It gives highest priority to poverty reduction, productive employment, social integration and environmental regeneration.

The sustainable development thus requires

- Preservation of Ecological Resources and greater use of renewable resources.
- Encouragement to the use of environmentally-safe technologies for development purposes i.e. focus on reduction of all kinds of pollution involved in the economic activities.
- Formulation and implementation of policy framework for people-security and human justice, including ecological and economic security.

3.5 HUMAN DEVELOPMENT

According to the United Nation's Development Programme (UNDP), human development may be defined as "a process of enlarging people's choices." At all levels of development, the three essential choices for people include to live a long and healthy life, to acquire better knowledge and to have access to resources needed for a decent standard of living. If these essential choices are not available, many other opportunities to improve the quality of life will remain inaccessible. Human development has two dimensions: acquiring human capabilities and the use

of these acquired capabilities for productive, leisure and other purposes. The benefits of human development go far beyond the expansion of income and wealth accumulation because people constitute the very essence of human development. Human development is about much more than economic growth. The economic growth focuses on the improvement of one option i.e. income or product while human development focus on enlarging all human options including education, health, clean environment and material well being. Thus, the options available for improving people's lives are influenced by the quality of economic growth in its wider sense, and the impact is by no means confined to quantitative aspects of such growth. In other words, economic growth needs to be seen as a means, albeit an important one, and not the ultimate goal, of development. Income makes an important contribution to human well-being, broadly conceived, if its benefits are translated into more fulfilled human lives. But the growth of income is not an end in itself. It is the quality of growth, not its quantity alone, which is crucial for human well-being.

Thus, the concept of human development, is concerned mainly with enabling people to enjoy a better life as the ultimate goal of human endeavor. Highlights that this goal cannot be achieved solely through improvements in income or material well-being.

As the 1996 Human Development Report put it, growth can be jobless, rather than job creating; ruthless, rather than poverty-reducing; voiceless, rather than participatory; rootless, rather than culturally enshrined; and futureless, rather than environment-friendly. Economic growth which is jobless, ruthless, voiceless, rootless and futureless is not conducive to human development. The lack of income or income poverty is only one aspect of human impoverishment; deprivation can also occur in other areas– having a short and unhealthy life, being illiterate or not allowed to participate, feeling personal insecurity, etc. Human poverty is thus larger than income poverty.

3.6 MEASURING HUMAN DEVELOPMENT: HUMAN DEVELOPMENT INDEX (HDI)

As stated earlier three dimensions of Human Development are capabilities of people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. The combined effect of various components of human development is measured through Human Development Index (HDI). The HDI contains four variables: life expectancy at birth, to represent the dimension of a long, healthy life; adult literacy rate and combined enrolment rate at the primary, secondary and tertiary levels to represent the knowledge dimension; and real GDP per capita to serve as a proxy for the resources needed for a decent standard of living. HDI thus looks not only at GDP

growth rate but takes into account education, health, gender inequality and income parameters to measure human development of a country.

As per the latest available Human Development Report (HDR) 2013 published by the United Nations Development Programme (UNDP) (which estimates the human development index [HDI] in terms of three basic capabilities: to live a long and healthy life, to be educated and knowledgeable, and to enjoy a decent economic standard of living), the HDI for India was 0.554 in 2012 with an overall global ranking of 136 (out of 186 countries) compared to 134 (out of 187 countries) as per HDR 2012. India's HDI has risen by 1.7% annually since 1980.

INTEXT QUESTION 3.2

1. Human development is a better measure of economic development as it places human-beings at the centre stage of development. Discuss.

3.7 FACTORS AFFECTING ECONOMIC GROWTH

The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as political, social and cultural factors. These factors are as follows:

A. Economic Factors

1. **Natural Resources:** The principal factor affecting the development of an economy is the natural resources. The natural resources include the land area and the quality of the soil, forest wealth, good river system, minerals and oil resources, good climate, etc. For economic growth, the existence of natural resources in abundance is essential. A country deficient in natural resources may not be in a position to develop rapidly. However, the availability of rich natural resources are a necessary condition for economic growth but not a sufficient one. In less developed countries, natural resources are unutilized, underutilized or misutilised. This is one of the reasons of their backwardness. On the otherhand countries such as Japan, Singapore etc. are not endowed with abundant natural resources but they are among the developed nations of the world. These countries have shown committment towards preserving the available resources, putting best efforts to manage the resources, minimizing waste of resources etc.

2. **Capital Formation:** Capital formation is another important factor for development of an economy. Capital formation is the process by which a community's savings are channelised into investments in capital goods such as plant, equipment and machinery that increases nation's productive capacity and worker's efficiency thus ensuring a larger flow of goods and services in a

country. The process of capital formation implies that a community does not spend whole of its income on goods for current consumption, but saves a part of it and uses it to produce or acquire capital goods that greatly add to productive capacity of the nation.

3. **Technological Progress**: Technological progress is a very important factor in determining the rate of economic growth. Technological progress mainly implies the research into the use of new and better methods of production or the improvement of the old methods. Sometimes technical progress results in the availability of natural resources. But generally technological progress results in increase in productivity. In other words, technological progress increases the ability to make a more effective and fruitful use of natural and other resources for increasing production. By the use of improved technology it is possible to have greater output from the use of given resources or a given output can be obtained by the use of a smaller quantity of resources. The technological progress improves an ability to make a fuller use of the natural resources e.g. with the aid of power - driven farm equipment a marked increase has been brought about in agricultural production. The USA, UK, France, Japan and other advanced industrial nations have all acquired the industrial strength from use of advanced technology. In fact economic development is facilitated with the adoption of new techniques of production.

Entrepreneurship

Entrepreneurship implies an ability to find out new investment opportunities, willingness to take risks and make investment in the new and growing business units. Most of the underdeveloped countries in the world are poor not because there is shortage of capital, weak infrastructure, unskilled labor and deficiency of natural resources, but because of acute deficiency of entrepreneurship. It is, therefore, essential in the under-developed nations to create climate for promoting entrepreneurship by emphasizing education, new researches, and scientific and technological developments

4. **Human Resources Development:** A good quality of population is very important in determining the level of economic growth. So the investment in human capital in the form of educational and medical and such other social schemes is very much desirable. Human resource development increases the knowledge, the skills and the capabilities of the people that increase their productivity.

5. **Population Growth:** Labor supply comes from population growth and it provides expanding market for goods and services. Thus, more labor produces larger output which a wider market absorbs. In this process, output, income and employment keep on rising and economic growth improves. But the population growth should be normal. A galloping rise in population retards

economic progress. Population growth is desirable only in a under-populated country. It is, however, unwarranted in an overpopulated country like India.

6. **Social Overheads:** Another important determinant of economic growth is the provision of social overheads like schools, colleges, technical institutions, medical colleges, hospitals and public health facilities. Such facilities make the working population healthy, efficient and responsible. Such people can well take their country economically forward.

Non-Economic Factors

Non-Economic factors that include socio-economic, cultural, psychological and political factors are also equally significant as are economic factors in economic development. We discuss here some of the essential non economic factors which determine the economic growth of an economy.

1. **Political Factors:** Political stability and strong administration are essential and helpful in modern economic growth. The stable, strong and efficient government, honest administration, transparent policies and their efficient implementation develop confidence of investors and attracts domestic as well as foreign capital that leads to faster economic development.
2. **Social and Psychological Factors:** Social factors include social attitudes, social values and social institutions which change with the expansion of education and transformation of culture from one society to the other. The modern ideology, values, and attitudes bring new discoveries and innovations and consequently to the rise of the new entrepreneurs. The outdated social customs restricts occupational and geographical mobility and thus pose an obstacle to the economic development.
3. **Education:** It is now fairly recognized that education is the main vehicle of development. Greater progress has been achieved in those countries, where education is wide spread. Education plays an important role in human resource development, improves labor efficiency and removes mental block to new ideas and knowledge thus contributes to economic development.
4. **Desire for Material Betterment:** The desire for material progress is a necessary precondition for economic development. The societies that focus on self-satisfaction, self-denial, faith in fate etc. limit risk and enterprise and thus keep the economy backward.

INTEXT QUESTION 3.3

1. Non-economic factors are as much important in economic development as economic factors. Comment.

3.8 COMMON FEATURES OF UNDERDEVELOPED COUNTRIES

1. **Low per Capita Income:** The level of per capita income is very low in underdeveloped countries.
2. **Poor Level of Living:** The vast majority of people in underdeveloped nations lie under the conditions of poverty, malnutrition, disease, illiteracy, etc. Even basic necessities of life such as minimum food clothing and shelter are not easily accessible to the poor masses.
3. **High Rate of Growth of Population:** Population growth in underdeveloped countries neutralizes economic growth. High population implies greater consumption expenditure and lower investments in productive activities and slows down the economic development.
4. **Highly Unequal Income Distribution:** The income inequality between the rich and the poor people within the underdeveloped countries is also very high.
5. **Prevalence of Mass Poverty:** Low level of per capita income combined with high degree of inequalities in its distribution leads to widespread poverty in underdeveloped countries.
6. **Low Levels of Productivity:** The Productivity level (i.e. output produced per person) tends to be very low in an underdeveloped country which is mainly due to : (i) inefficient workforce which itself is a consequence of poverty, ill health and lack of education (ii) Low work culture (iii) Low use of capita in the form of machinery and equipment.
7. **Low Rate of Capital Formation:** The saving rate in an underdeveloped country is quite low and rate of capital formation is also is very slow.
8. **Technological Backwardness:** In most of the sectors, an underdeveloped economy the techniques of production employed are generally obsolete mainly due to low saving rate.
9. **High Level of Unemployment:** Unemployment levels are very high in the underdeveloped countries mainly due to lack of capital and low level of development in various economic sectors, these countries are not able to absorb the rising labor supply.
10. **Low Social Indicators of Development:** The under-developed countries have very low social indicators such as low literacy rate, high infant mortality rate, low expectancy of life, etc. as compared to the developed countries.

INTEXT QUESTIONS 3.4

1. Which of the following characteristics are most likely found in developing countries?

(a) high population growth rates.

(b) large number of people living in poverty.

(c) very traditional methods of agricultural production.

(d) all of the above

(e) none of the above

2. Economic development refers to

(a) economic growth.

(b) economic growth plus changes in output distribution and economic structure.

(c) sustainable increases in Gross National Product.

3. The common measure of economic development is

(a) The level of health and education of the population.

(b) The rate of population growth.

(c) Per Capita GDP

(d) All of the above

(e) None of the above.

4. developing nations have

(a) A lower infant mortality rate.

(b) A greater degree of equality in the income distribution.

(c) lower rate of illiteracy.

(d) None of above.

5. Sustainable development involves

(a) Reducing Consumption, increasing efficiency and using renewable energies.

(b) better transportation by building more roads

(c) Using Resources at maximum rates.

6. Sustainability is the use of a resource that doesnot cause long term depletion of resources or affect the diversity of the ecosystem.

(a) True.

(b) False.

7. Which three indicators are currently used in the Human Development Index (HDI):

(a) real GDP per capita

(b) Birth rates

(c) Life expectancy at birth

(d) Employment Rates

(e) Educational attainment.

WHAT YOU HAVE LEARNT

- Economic growth implies a process of increase in real national income and real per capita income.
- Economic development is defined as a sustained improvement in material well being of society.
- Sustainable development in development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- Human development may be defined as "a process of enlarging people's choices".
- According to UNDP, human Development Index (HDI) includes three basic capabilities (indicators) to live a long and healthy life, to be educated and knowledgeable and to enjoy a decent economic standard of living.
- Economic factors affecting growth and development are: natural resources, capital formation, technological progress, entrepreneurship, human resource development, population growth and social overheads.
- Non-economic factors affecting growth and development are: political factors, social and psychological factors, education and desire for material betterment.
- Common features of developing countries are: (i) Low per capita income, (ii) Poor level of living, (iii) High rate of growth of population, (iv) Highly inequal income distribution, (v) Prevalence of mass poverty, (vi) Low levels of productivity, (vi) Low rate of capital formation, (viii) Technological backwardness, (ix) High level of unemployment, and (x) Low social indicators of development.

TERMINAL EXERCISE

1. What is economic growth? Do you think that economic growth and economic development are two names for the same concept?

   Hint: Meaning of economic growth and difference between economic growth and economic development.

2. There is no automatic link between economic growth and human development. Discuss.

Hint: Meaning of human development and difference between economic growth and human development.

3. What are the common features of Underdeveloped countries?

   Hint: features of underdeveloped countries.

4. What are the important components of the Human Development Index (HDI)

   Hint: meaning of HDI

5. Explain the meaning of Sustainable development.

   Hint: Concept of sustainable development.

ANSWERS TO INTEXT QUESTIONS

3.1

1. Difference between economic growth and economic development.

3.2

1. Meaning of human development.

3.3

1. Economic and Non-economic factors of growth.

3.4

1. (d) 2. (b) 3. (c) 4. (d) 5. (a) 6. (a)
7. (a), (c) and (e)

Notes

4

THE PROBLEM OF UNEMPLOYMENT, POVERTY AND INEQUALITY

In India, the problems of unemployment and poverty have always been major obstacles to economic development. Regional disparity is also crucial in this context. Economic reforms, changes in the industrial policy and better utilization of available resources are expected to reduce the problem of unemployment and poverty. The governmental bodies are also required to initiate long term measures for poverty alleviation. Generation of employment opportunities and equality in income distribution are the two key factors that are of utmost important to deal with the dual problem of unemployment and poverty.

OBJECTIVES

After completing this lesson, you will be able to:

- explain the meaning, types and important measures of unemployment;
- identify the causes of unemployment;
- know the Government policies and programmes implemented to alleviate poverty and generate employment; and
- evaluate the extent and causes of regional disparity in India.

4.1 MEASUREMENT AND MAGNITUDE OF UNEMPLOYMENT IN INDIA

4.1.1 Meaning and Types of Unemployment

The population of any country consists of two components **(i) Labor Force (ii) Non-Labor Force.** Labor force means all persons who are working (i.e. being engaged in the economic activity) as well as those who are not working but are

seeking or available for work at the current wage rate. It means the labor force consists of both employed and unemployed people.

The component of population which is not a part of the labor force is Non-Labor Force. It includes all those who are not working and are neither seeking nor available for work.

Unemployment can be defined as a state of workless ness for a person who is fit and willing to work at the current wage rate. It is a condition of involuntary and not voluntary idleness. Simply stated an unemployed person is the one who is an active member of the labor force and is seeking work, but is unable to find the same. In case of voluntary unemployment a person is out of job on his own accord or choice, doesn't work on the prevalent or prescribed wages. Either he wants higher wages or doesn't want to work at all. The involuntary unemployment on the other hand is the situation when a person is separated from remunerative work and devoid of wages although he is capable of earning his wages and is also anxious to earn them. It is the involuntary idleness that constitutes unemployment. Involuntary unemployment can be further divided into cyclical unemployment, seasonal unemployment, structural unemployment, frictional unemployment, natural rate of unemployment, disguised unemployment and under employment.

4.1.1.1 Cyclical Unemployment

Cyclical or demand deficient unemployment occurs when the economy is in need of low workforce. When there is an economy-wide decline in aggregate demand for goods and services, employment declines and unemployment correspondingly increases. Cyclical unemployment mainly occurs during recession or depression. This form of unemployment is most commonly known as cyclical unemployment since unemployment moves with the trade cycle. For instance, during the recent global slowdown in late 2008, many workers around the globe lost their jobs.

4.1.1.2 Seasonal Unemployment

This type of unemployment occurs in a particular time of the year or season and thus is known as seasonal unemployment. Seasonal unemployment is most common in industries like agriculture, tourism, hotel, catering etc.

4.1.1.3 Structural Unemployment

Structural unemployment arises when the qualification of a person is not sufficient to meet his job responsibilities. It arises due to long term change in the pattern of demand that changes the basic structure of the economy. The person is not able to learn new technologies used in the new expanding economic sectors and they thus may be rendered permanently unemployed. For instance, when computers were

introduced, many workers were dislodged because of a mismatch between the existing skills of the workers and the requirement of the job. Although jobs were available, there was a demand for a new kind of skill and qualification. So, persons with old skills did not get employment in the changed economic regime, and remain unemployed.

4.1.1.4 Frictional Unemployment

Frictional unemployment occurs when a person is out of one job and is searching for another for different reasons such as seeking a better job, being fired from a current job, or having voluntarily quit a current job. It generally requires some time before a person can get the next job. During this time he is frictionally unemployed.

4.1.1.5 Natural rate of unemployment

The sum total of frictional and structural unemployment is referred as the natural rate of unemployment.

4.1.1.6 Disguised Unemployment

The unemployment which is not visible is said to be disguised unemployment. It occurs when a person doesn't contribute anything to the output even when visibly working. This happens amongst family labor especially in agriculture who are engaged on land but are not contributing to the given level of output. Thus their marginal productivity is zero.

4.1.1.7 Underemployment

When a person is engaged in the economic activity but that fail to provide him fully in accordance to his qualification and efforts. Thus it is a situation in which a person is employed but not in the desired capacity whether in terms of compensation, hours, or level of skill and experience. While not technically unemployed the underemployed often compete for available jobs.

4.2 MEASUREMENT OF UNEMPLOYMENT

Unemployment rate is the percent of the labor force that is without work. It is calculated as below:

Unemployment rate = (Unemployed Workers/Total labor force) × 100

Measurement of unemployment is a difficult task. In India, the most comprehensive and reliable data on employment and unemployment are compiled by the National Sample Survey Organization (NSSO). Based on different reference period (a year, a week, and each day of a week), NSSO provides four different measures of

employment and unemployment. The following are some methods of measuring unemployment:

(i) **Usual Principal Status Unemployment (UPS):** This is measured as the number of persons who remained unemployed for a major part of the year. The persons covered by the survey may be classified into those working and/or available for work in their principal activity, and those working and/or available for work in a subsidiary activity, that is, a sector other than their principal activity. Hence, within the usual status concept, the estimates are now derived on the usual principal status as well as the usual principal and subsidiary status basis. The usual status unemployment rate is a person rate and indicates chronic unemployment, because all those who are found usually unemployed in the reference year are counted as unemployed. This measure is more appropriate to those in search of regular employment, e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'.

(ii) **Usual Principal and Subsidiary Status Unemployment (UPSS):** Here person is considered unemployed, if besides UPS, those available but unable to find work on a subsidiary basis during a year.

(iii) **Current Weekly Status Unemployment (CWS):** This refers to the number of persons who did not find even an hour of work during the survey week.

(iv) **Current Daily Status Unemployment (CDS):** This refers to the number of persons who did not find work on a day, or on some days, during the survey week.

Rates of unemployment differ based on different concepts. The UPS and UPSS measure reflect only long term unemployment spells. The CWS measure captures shorter unemployment spells, but ignores unemployment for less than a week. The CDS measure is the most inclusive, capturing both open as well as partial unemployment. The unemployment rate based on different measures is given under the following table 4.1:

Table 4.1: Unemployment Rate (%)

Year	2004-05	2009-10	2010-11
UPSS	2.3	2.0	2.2
CWS	4.4	3.6	3.7
CDS	8.2	6.6	5.6

Source: NSSO Surveys, till 2014

It is clear from the above table that there is decline in the unemployment rate since 2004-05. UPSS has remained more or less same between 2004-05 to 2010-11 at marginally above 2 per cent. CWS declined from 4.4 per cent in 2004-05 to 3.6 in 2009-10 and almost remained same at 3.7 in 2010-11. CDS decreased continuously from 8.2 per cent in 2004-05 to 6.6 per cent in 2009-10 and 5.6 per cent in 2010-11

4.3 CAUSES OF UNEMPLOYMENT IN INDIA

4.3.1 Slow Economic Growth

During the planning period the trend rate of growth was considerably lower than the targeted rate. Therefore, jobs in adequate number were not created. Further, economic growth by itself does not solve the problem of unemployment. In the recent past there has been deceleration in the growth of employment in spite of the accelerated economic growth. This can be explained in terms of steady decline in the degree of response of employment to change in output in all the major sectors of economic activity except in construction. According to T.S. Papola, over a period of time, the output growth in agriculture and manufacturing sector has become more input and technology-intensive and less labor-intensive. Besides, the sectoral composition of growth is also an important determinant of unemployment. Excessive dependence on agriculture and slow growth of non-farm activities limit employment generation.

4.3.2 Increase in Labor force

There are two important factors that have caused an increase in the labor force which are as follows:

(i) **Rapid Population Growth:** Rising population has led to the growth in the labor supply and without corresponding increase in the employment opportunities for the increasing labor force has aggravated the unemployment problem.

(ii) **Social Factors:** Since Independence, education among women has changed their attitude toward employment. Many of them now compete with men for jobs in the labor market. The economy has however failed to respond to these challenges and the net result is a continuous increase in unemployment backlogs.

4.3.3 Rural-Urban Migration

The unemployment in urban area is mainly the result of substantial rural migration to urban areas. Rural areas have failed to provide subsistence living in agriculture

and allied activities and so large scale migration is taking place to cities. However, economic development in cities has failed to create enough additional jobs for the new urban entrants to the labor market. Thus only some of the migrants are absorbed in productive activities and the rest join the reserve army of unemployed workers.

4.3.4 Inappropriate Technology

In India, though capital is a scarce factor, labor is available in abundant quantity; yet producers are increasingly substituting capital for labor. This policy results in larger unemployment. Despite the abundance of labor, capital intensive technology is adopted in India mainly because of rigid labor laws. It is quite difficult to follow easy hire and fire policy and so right sizing of manpower is difficult for the enterprises. It is difficult to reduce the number of labor-Force. Further, the factors like labor-unrest and lack of work-culture leads to the increased inefficiency of labor and thus provide incentives to follow labor-saving technology by organizations.

4.3.5 Defective Educational System

The present educational system has theoretical bias and has limited utility for productive purposes. It lacks the emphasis on the development of aptitude and technical qualifications required for various types of work among job seekers. This has created a mismatch between the need and availability of relevant skills and training, which results in unemployment, especially of youth and educated while shortage of technical and specialized personnel continues.

4.3.6 Lack of Infrastructure Development

Lack of investment and infrastructure development limits the growth and productive capacity of different sectors which leads to inadequate generation of employment opportunities in the economy.

4.3.7 Lack of employability

India faces poor health and nutrition situation among masses which reduces the capacity of person to be employable and it causes unemployment.

INTEXT QUESTION 4.1

1. What is unemployment rate? How is it measured in India?
2. What are the causes of increase in labor force in India?

4.4 POVERTY IN INDIA

In general, poverty can be defined as a situation when people are unable to satisfy the basic needs of life. The definition and methods of measuring poverty differs from country to country. The extent of poverty in India is measured by the number of people living below the **Poverty Line.**

4.4.1. Poverty Line

The **Poverty Line** defines a threshold income. Households earning below this threshold are considered poor. Different countries have different methods of defining the threshold income depending on local socio-economic needs. The Planning Commission releases the poverty estimates in India.

Poverty is measured based on consumer expenditure surveys of the National Sample Survey Organisation (NSSO). A poor household is defined as the one with an expenditure level below a specific poverty line.

Earlier, India used to define the poverty line based on a method defined by a task force in 1979. It was based on expenditure for buying food worth 2,400 calories in rural areas and 2,100 calories in urban areas. In 2009, the Suresh Tendulkar Committee defined the poverty line on the basis of monthly spending on food, education, health, electricity and transport.

The Planning Commission has updated the poverty lines and poverty ratios for the year 2009-10 as per the recommendations of the Tendulkar Committee. It has estimated the poverty lines at all India level as an MPCE (monthly per capita consumption expenditure) of `. 673 for rural areas and `. 860 for urban areas in 2009-10. So a person who spends ` 673 in rural areas and `. 860 in urban area per month is defined as living below the poverty line.

Based on these cut-offs, the percentage of people living below the poverty line in the country has declined from 37.2 per cent in 2004-5 to 29.8 per cent in 2009-10. 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 2004-5 and 2009-10. The annual average rate of decline during the period 2004-5 to 2009-10 is twice the rate of decline during the period 1993-4 to 2004-5 (Table).

Table 4.2: Poverty Ratios (figures are in %)

Year	Rural	Urban	Total
1993-94	50.1	31	45.3
2004-05	41.8	25.7	37.2
2009-10	33	20.9	29.8

Source: Economic Survey 2013

4.5 CAUSES OF POVERTY IN INDIA

4.5.1 Vicious Circle of Poverty:

It is said that "a country is poor because it is poor." This idea has come down from Ragnar Nurkse who pinpointed the problem of the vicious circle of poverty. Low level of saving reduces the scope for investment; low level of investment yields low income and thus the circle of poverty goes on indefinitely.

4.5.2 Low Resources Endowment

A household is poor if the sum total of income earning assets which it commands, including land, capital and labor of various levels of skills, cannot provide an income above the poverty line. The poor mainly consists of unskilled labor, which typically does not command a high enough level of wage income.

4.5.3 Inequality in the Distribution of Income and Assets:

The distribution of income and assets also determine the level of income. The economic inequalities are the major cause of poverty in India. It means the benefits of the growth have been concentrated and have not "trickled down" sufficiently to ensure improved consumption among the lower income groups.

4.5.4 Lack of Access to Social Services

The lack of access to social services such as health and education compound the problems arising from inequality in the ownership of physical and human assets. These services directly affect household welfare. The poor typically get much less than a fair share of such services. This is partly because governments do not invest enough to ensure an adequate supply of these services and the limited supply is mainly availed by non-poor households. Further, the poor may not have adequate access for a variety of other reasons like lack access to information about the existence of such services, lack of knowledge and corruption.

4.5.5 Lack of access to Institutional Credit

The banks and other financial institutions are biased in the provision of loans to the poor for the fear of default in the repayment of loans. Further, the rules regarding collateral security, documentary evidences etc. present constraints for the poor to avail loan facility from banks. The inaccessibility to institutional credit may force poor to take credit from the landlord or other informal sources at a very high interest rate and which in turn may weaken their position in other areas, leading, for example, to the payment of abnormally high rental shares for land, or acceptance of abnormally low wages in various types of "bonded labour"

arrangements or selling their crop at a very low price. In some cases poor people cannot make themselves free from the clutches of moneylenders. Their poverty is further accentuated because of indebtedness. Such indebted families continue to remain under the poverty line for generations because of this debt-trap.

4.5.6 Price Rise

The rising prices have reduced the purchasing power of money and thus have reduced the real value of money income. The people belonging to low income group are compelled to reduce their consumption and thus move below the poverty line.

4.5.7 Lack of Productive Employment

The magnitude of poverty is directly linked to unemployment situation. The present employment conditions don't permit a reasonable level of living causing poverty. The lack of productive employment is mainly due to problems of infrastructure, inputs, credit, technology and marketing support. The gainful employment opportunities are lacking in the system.

4.5.8 Rapid Population Growth:

The faster population growth obviously means a slower growth in per capita incomes for any given rate of growth of gross domestic product (GDP), and therefore a slower rate of improvement in average living standards. Further the increased population growth increase consumption and reduces national savings and adversely affects the capital formation thereby limiting the growth in the national income.

4.5.9 Low Productivity in Agriculture

The level of productivity in agriculture is low due to subdivided and fragmented holdings, lack of capital, use of traditional methods of cultivation, illiteracy etc. This is the main cause of poverty in the rural India.

4.5.10 Social Causes

(i) **Education:** Education is an agent of social change. Poverty is also said to be closely related to the levels of schooling and these two have a circular relationship. The earning power is affected by investment in individual's education and training. However, poor people do not have the funds for human capital investment and thus it limits their income.

(ii) **Caste system:** Caste system in India has always been responsible for rural poverty. The subordination of the low caste people by the high caste people

caused the poverty of the former. Due to rigid caste system, the low caste people could not participate in various economic activities and so remain poor.

(iv) **Social customs:** The rural people generally spend a large percentage of annual earnings on social ceremonies like marriage, death feast etc. and borrow largely to meet these requirements. As a result, they remain in debt and poverty.

4.6 POVERTY ALLEVIATION AND EMPLOYMENT GENERATION PROGRAMMES IN INDIA

The government is following a focused approach through various flagship schemes in the areas of poverty alleviation and employment generation to achieve inclusive development.

4.6.1 Mahatma Gandhi National Rural Employment Guarantee Work (MGNREGA)

This flagship programme of the government aims at enhancing livelihood security of households in rural areas by providing at least one hundred days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work with the stipulation of one-third participation of women. The MGNREGA provides wage employment while also focusing on strengthening natural resource management through works that address causes of chronic poverty like drought, deforestation, and soil erosion and thus encourage sustainable development.

4.6.2 National Rural Livelihood Mission (NRLM)- Aajeevika

The Swarnjayanti Gram Swarozgar Yojana (SGSY)/ NRLM 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 rural poors are organized into self-help groups (SHGs) and their capacities are built through training and skill development.

4.6.3 Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

The SJSRY launched on 1 December 1997 aims at providing gainful employment to the urban unemployed and underemployed, by encouraging them to set up self-employment ventures or creating wage employment opportunities.

INTEXT QUESTIONS 4.2

1. Explain the concept of poverty line in India.
2. How does availability of institutional credit impact the level of poverty in India
3. What do you mean by vicious circle of poverty?

4.7 INEQUALITY IN INDIA

India is a vibrant country with quite an impressive economic growth profile and as expected, improvement in economic growth and per capita income has translated, at least partly, into reduction in the level of poverty in the country. It is a fact that there has been a secular decline in the share of poor in the population. However, there exists a wide spread disparities in the levels of social-economic development between the different regions of the country. The huge differences in living standards as measured by per capita incomes, across the States of India range from 12000 rupees per head in Bihar to nearly 100,000 rupees per head in Goa. They are the product of history and past growth experience. There are also other related disparities in the levels of education, literacy, health, infrastructure, population growth, investment expenditure and the structure of regions. The regional disparity in the last decade shows that India has a vast array of richer and poorer regions with Goa being the richest region and Bihar the poorest. In 2010/11, Chandigarh was the richest, but Bihar remained the poorest. There are also substantial variations in the average annual growth rate over the period, ranging from an impressive 8.39 per cent in Chandigarh to a sluggish 2.71 per cent in Jammu & Kashmir. Further, during this decade, the top four richest regions (viz, Goa, Chandigarh, Delhi and Puducherry) have high initial levels of GDSP (Gross Domestic State Product) per head and very fast growth over the period as compared to the other regions.

4.8 CAUSES OF GROWING REGIONAL DISPARITIES IN INDIA

4.8.1. Historical Factors

Historically regional imbalance in India started from its British regime. British industrialist mostly preferred to concentrate their activities in two states like west Bengal and Maharashtra and more particularly to their metropolitan cities like Kolkata, Mumbai and Chennai. They concentrated all their industries in and around these cities neglecting the rest of the country to remain backward.

4.8.2 Geographical factors

The difficult terrain surrounded by hills rivers and dense forest, leads to increase in the cost of administration, cost of development projects, besides making mobilization of resources partially difficult. Adverse climate and floods are also responsible factors for poor rate of economic develop-ment of different regions of the country as reflected by low agricultural productivity and lack of industrialization. These factors have resulted in uneven growth of differ-ent regions of India.

4.8.3 Infrastructure

The states with well-developed basic infrastructure such as power, water, roads and airport attracts the big investment projects and so has witnessed a very high growth rate. The poorer states on other hand lacking the basic infrastructure fails to attract private investments. This has accentuated the problem of inequality in the distribution of income and concentration of economic power.

4.8.4 Decline in Public Investment

In the new economic policy the Government has been continuously limiting its role with respect to participation in economic activity and has given more space to the private sector. There has been a steady decline in the public investment. This has adversely affected the poorer states. Since the public investment is a major contributor to growth of these States through bulk investments on irrigation, power and social sector projects decline in the same has adversely affected the process of development of many regions.

INTEXT QUESTIONS 4.3

1. The percentage of labour force that is unemployed is the:
   (a) employment rate
   (b) Unemployment Population Ratio.
   (c) Unemployment rate.
   (d) Labour force rate.
2. The labour force can be defined as:
   (a) Those of workers who are seeking work and are available for work at current wage rate.
   (b) Anyone who is working or actively seeking work.
   (c) The population between school-leaving age and retrirement age.
   (d) Those who could claim benefit if they were to become unemployed.
3. Cyclical Umemployment is the:

(a) Unemployment that results when people become discouraged about their chances of finding a job so that they stop looking for work

(b) Unemployment that occurs during recessions and depressions.

(c) portion of unemployment that is due to the normal working of the labour market.

(d) portion of unemployment that is due to changes in the structure of the economy that results in a significant loss of jobs in certain industries.

4. Which among the following is the method to estimate the poverty line in India?

(a) Investment method

(b) Capital method

(c) Human method

(d) Income method.

5. Who conducts the periodical sample survery for estimating the poverty line in India?

(a) National Survery Organisation

(b) National Sample Survey Organisation

(c) Sample Survey Organisation

(d) None of the above.

6. For how many days MNREGA provides employment?

(a) 70 (b) 80

(c) 90 (d) 100

WHAT YOU HAVE LEARNT

- An able bodied person who is willing to work but he is not getting any job is called an unemployed person.
- Cyclical unemployment occurs during the time of recession where there is fall in aggregate demand in the economy.
- Seasonal unemployment is mostly found in agriculture sector, tourism etc.
- Structural unemployment is caused due to lack of adjustment of the labour force with the change in demand.
- Frictional unemployment is created when a person searches for a better job or losses his current job.
- Disguised unemployment is a situation where marginal product of labour is zero.

- Underemployment is a situation where in a person does not receive the remuneration he/she deserves from his/her present occupation and also his/her capabilities are not fully used.
- Unemployment rate is defined as the percent of the labour force that is without work.
- There are following measures of unemployment in India- Usual Principal Status (UPS), Usual Principal and Subsidiary Status Unemployment (UPSS), Current Weekly Status (CWS) and Current Daily Status (CDS).
- UPS refers to a person who could not find a job for major part of the year.
- UPSS refers to a person who could not find a job for even on a subsidiary basis for a major part of the year.
- CWS refers to a person who could not get a job even for an hour in a week.
- CDS refers to a person who could not find a job in the reference day.
- Causes of unemployment in India include: Slow Economic Growth, Rapid Population Growth, Rural-Urban Migration, Backward Technology, Lack of Education and Lack of Infrastructure.
- Poverty line is defined as the level of income or expenditure below which a person cannot sustain himself/herself at the on going market price. Poverty Line has changed over time in India.
- Causes of Poverty in India include: Lack of Resources, Income Inequality, Lack of Access to Social Services, Lack of Access to Institutional Credit, Unemployment, Inflation etc.
- Some of the antipoverty programmes of the government include: MGNREGA, NRLM, SJSRY,
- Inequality in income distribution and regional inequality are major threat to Indian economic development.

TERMINAL EXERCISE

1. What are the causes of unemployment in India?
2. Discuss the causes of poverty in India.
3. Briefly explain various poverty alleviation programmes implemented by Government of India in recent years.
4. Explain the dimension of regional inequality in India.
5. What are causes of regional inequality in India?

ANSWER TO INTEXT QUESTIONS

4.1

1. See section 4.2
2. See section 4.3.2

4.2

1. Poverty line (see section 4.4.1)
2. See sec 4.5.4
3. See section 4.5.1

4.3

1. (c)
2. (a)
3. (b)
4. (d)
5. (b)
6. (d)