Understanding the Problems of Indian Economy

Uma Kapila


CONTENTS

Preface: .......................................................................................................................... 21

PART - I

Issues in Development Planning

1. Economic Growth and Economic Development .................................................. 25
   - Introduction
   - What does Development Mean.
   - Economic Growth
   - Economic Growth and Economic Development
   - The New View of Economic Development
     - Development as a Multi-dimensional Process
     - Three Core Values of Development
   - Distinction between Economic Growth and Economic Development
   - Sustainable Human Development
     - What Makes Development Unsustainable?
     - The Environmental Problems in Developing Economies
     - Policy for Sustainable Development
   - Human Development Index
   - National Human Development Report - 2001
     - Indicators
     - State of Human Development in India
       - State Level
   - The Factors in Development
     - Economic Factors
     - Non-Economic Factors

2. Balanced and Unbalanced Growth Strategies ........... 43
   - The Vicious Circle of Poverty
   - Theory of Balanced Growth
     - The Big Push Theory

...Contd....
• Weaknesses of the Theory of Balanced Growth
  – Theory of Unbalanced Growth
  – Balanced Growth or Unbalanced Growth?

3. Nature of the Indian Economy

  – Common Characteristics of Underdeveloped Countries
    • Low Levels of Living
    • Low Levels of Productivity
    • High Rate of Population Growth and Dependency Burden
    • High and Rising Levels of Unemployment and Underemployment
    • Substantial Dependence on Agricultural Production and Primary Product Exports
    • Dominance, Dependence and Vulnerability in International Relations

  – Indian Economy in Transition
    • India — A Developing Economy
    • Indian Economy as Mixed Economy
      – Features of the Mixed Economy

4. National Income:

  Trends & Structural Transformation

  – Long-Term Trends in Real GDP 1950-51 – 2000-01
  – Growth Rates in the '90s — Problem of Comparability
  – The Growth Deceleration (1997-98 to 2002-03)
  – Growth Rate in 2003-04 and 2004-05
  – Sectoral Composition of Real GDP
    • Compositional Shift in Favour of Services
      – Sustainability of Services Growth
      – Performance of the Services Sector
      – Factors underlying the Services Growth
    • Composition of Growth in the Services Sector:
      Intermediate versus Final Consumption of Services
      – Producer Services
      – Consumer Services and Private Final Consumption Expenditure
      – Government Services
    • External Demand for Services
    • Summing Up

  – Trends in the Share of the Public Sector
  – Share of Organised and Unorganised Sector in NDP
Inter-regional Variations of National Income

- Implications of Inter-State Inequality
- Implications for Policy
- The Role of the Central Government

Conclusion

5. Planning in India: Development Strategy & Sustainable Growth

- Objectives of Planning
  - Growth
    - Tenth Plan: Growth, Equity and Sustainability
  - Modernisation
    - Progress towards Modernisation
      - Industry
      - Agriculture
      - Financial Sector
  - Self-Reliance
    - Self-Reliance in the Ninth Plan
  - Social Justice
- The Development Strategy
  - Structural Constraints and the Development Strategy
  - Changing Perceptions
  - The Development Strategy: Ninth Five Year Plan
  - The Development Strategy: Tenth Plan
    - Agriculture as Centre-piece of Development Strategy

- Summing Up

6. Structural Adjustment in the Indian Economy

- The Background
- The Macroeconomic Crisis
- Rationale for the Reforms
- Macroeconomic Reforms
  - Structural Reforms
    - Implementation of the Agenda
    - Removal of QRs
    - National Structural Adjustment Programme
      - Safety Net
- Macroeconomic Impact of Reforms
  - Fiscal Adjustment and Stabilisation
- Political Resistance to Reform

...Contd....
Understanding the Problems of Indian Economy

---Contd....

- Concerns Regarding Social and Political Implications of Reform
- Impact of the New Economic Policy on the Vulnerable Sections

7. Population

---

Economic Development and Population Growth

- The Theory of Demographic Transition
- The Micro Economic Theory of Fertility
- How Does Population Growth Affect Economic Development?

Population and Labour Force Projections

The Ongoing Demographic Transition: Challenges and Opportunities

Demographic Trends in India

- Period of Low Population Growth
- Period of Rapid Growth and Population Explosion
- Period of Some Decline in Rate of Growth 1981 Onwards

Trends in Birth and Death Rates

- Causes of High Birth Rate
  - Social Factors
  - Universal and Early Marriage of Women
  - Joint Family System
  - Role of Religion
  - Economic Factors
    - Poverty
    - Lack of Social Security
    - Illiteracy, Ignorance and Belief in Fate
    - Ineffective Family Planning
- Fertility Rate
- Causes of Decline in Death Rate
  - Control of Epidemics
  - Control of Famines
  - Improved Medical Facilities
  - Spread of Maternity Homes
  - Impact of Economic Development
- Measures to Reduce Birth Rate
- Family Planning/Family Welfare Programmes
  - Progress of Health and Family Welfare Programmes
- Possible Pathways to a Faster Decline in Fertility
  - Urbanisation
    - Degree of Urbanisation in India
      - A Comparison with Some Selected Countries
  - Literacy
8. Unemployment and Employment Perspective...... 154
   - Population and Labour Force Projections
   - Concepts and Measurement
   - Measurement of Employment and Unemployment
   - Recent Trends in Employment and Unemployment Situation
   - Projections of Employment Opportunities
   - Strategies and Policies for Employment Generation
     • Sectoral Policy Initiatives for Opening up New Employment Opportunities
     • Progress during Tenth Plan (MTA)

9. Poverty in India.......................................................................................... 171
   - Magnitude and Determinants
   - State Level Poverty Ratios
   - Basic Minimum Services
   - Policy
     • Flaws in Policies and Programmes
       - Targeting
       - Accountability
   - Role of NGOs and Voluntary Organisations
   - Anti-Poverty Programmes: Tenth Plan

10. Resource Mobilisation and Pattern of Plan Financing................................. 190
    - Pattern of Plan Financing: First Plan to Ninth Plan
    - Fiscal and Budgetary Developments 1980-2000
    - Revenue Pattern of the Central Government
    - Fiscal Responsibility and Budget Management (FRBM)
    - Projection of the Tenth Plan (2002-07): Resources of the Centre
    - Financing the Tenth Plan (MTA)
      • Central Plan Resources
      • Resource Constraints
      ...Contd....
11. Fiscal Policy

- Background to Fiscal Reforms
- Fiscal Reforms in India: Policy Measures and Developments
  - Central Government
    - Tax Reforms
    - Expenditure Management
    - Restructuring of the Public Sector
    - Fiscal-Monetary Coordination
    - Institutional Measures
  - State Governments
- Performance During the 1990s
  - Trends in Revenue
    - Trends in Tax Revenue
    - Trends in Non-Tax Revenue
  - Trends in Expenditure
    - Expenditure on Subsidies
- Fiscal Deficit
  - Fiscal Deficit: Comparison between '80s and '90s
- Worsening State Finances
- Concluding Observations
  - Fiscal Consolidation and Institutional Reforms

12. Inflation

- Trends in Wholesale Prices: 1950s to '80s
- The Period of '90s
  - Factors for Low Inflation Rate since the Second Half of the '90s
- Developments during 2003-04
- Developments in 2004-05 So Far
  - Primary Products
  - Fuel Power, Light and Lubricants
  - Manufactured Products
  - Essential Commodities
- Inflation Rate based on CPI(IW)/Consumer Inflation
- Consumer Inflation
- Inflation Targeting
- Movement of Agricultural Prices vis-a-vis Manufactured Prices
- Issues in Price Stability
- Anti-inflationary Measures
PART - II
Sectoral Analysis of Indian Economy

A. DOMESTIC SECTOR


- Importance of Agriculture in National Economy
  - Agriculture as a Source of Employment
  - Linkage between Agriculture and Other Sectors

- Productivity in Indian Agriculture
  - Low Levels of Productivity
  - Causes of Low Productivity
    - General Causes
    - Institutional Causes
    - Technological Factors
    - Lack of Credit and Marketing Facilities

14. Changing Contours of Indian Agriculture .......... 250

- Performance of Agriculture
  - Growth Rates

- Composition of Agricultural Sector

- Changes in Cropping Pattern

- Emerging Trends and Impact of Globalisation

- Major Issues in the Context of Globalisation

15. New Technology in Indian Agriculture and the Green Revolution .......... 265

- Characteristics of New Technology
  - Better Agricultural Practices
  - Economic Aspects of New Technology

- Green Revolution
  - First Phase: Increase in Public Investment in Agriculture
  - Second Phase of Green Revolution

- The Role of Technology in Indian Agriculture
  - Factor Limiting the New Technology
    - Small Size of Farms
  - Instability in Output
  - Regional Disparities and Intrapersonal Disparities
  - New Technology and Environmental Degradation

...Contd....
...Contd....

- **Prime Movers of Growth**
  - Development and Diffusion of Technology
  - Irrigation
  - Fertilisers

- **Major Factors Affecting the Growth Potential**
  - Lack of Long Term Policy Perspective
  - Neglect of Capital Formation
  - Lagging Research and Development Efforts
  - Rising Soil Degradation and Over-exploitation of Ground Water

- **Is Indian Agriculture Approaching Limits to Growth?**

- **Strategy and Thrust in the Tenth Plan**
  - Regionally Differentiated Strategy
  - Sustainable Development of Natural Resources

- **Progress in the Tenth Plan (MTA)**
  - Infrastructure

### 16. Farm Mechanisation and Choice of Appropriate Technology ........................................................................... 298

- **Arguments for Mechanisation**
  - Mechanisation Promotes Productivity
  - Coping with Peak Period of Labour Requirements
  - Mechanisation and Reduction in Costs
  - Multiple-cropping
  - Improvement in General Well-being

- **Case Against Farm Mechanisation**
  - Impact of Mechanisation on Agricultural Employment
  - Existence of Small Farms

- **Scope for Farm Mechanisation and the Question of Appropriate Technology**

### 17. Institutional Factors: Land Reforms ........................................................................................................... 304

- **Feudal Agrarian Structure**
- **Objectives of Land Reforms**
- **Measures**
  - Abolition of Intermediaries
  - Tenancy Reforms
    - Regulation of Rent
    - Security of Tenure
    - Ownership Rights of Tenants
  - Ceiling on Land Holdings
18. Agricultural Credit ................................................................. 317
   - Credit Requirements of Cultivators
   - Sources of Agricultural Finance
     • Institutional Sources of Finance
       - Co-operative Societies
       - Commercial Banks
       - Land Development Banks
       - Regional Rural Banks
     • Non-Institutional Sources of Credit
       - Rural Moneylenders
       - Landlords, Traders and Relatives
   - Have the Institutional Sources of Credit Replaced the Non-Institutional Sources in Rural India?
   - Weaknesses in Rural Credit System
   - Findings and Recommendations of the Report of the NABARD Expert Committee on Rural Credit
     • Challenging Tasks
     • Strengthening the Credit Delivery System
     • Planning, Supervision and Co-ordination

19. Agricultural Price Policy ......................................................... 331
   - Objectives of Agricultural Price Policy

20. Reform Agenda for Agriculture ................................................ 336
   - Removal of Restrictions on Domestic Trade and Processing
     • Removal of Restrictions
     • Minimum Support Prices and Public Procurement of Foodgrains
     • Trade and WTO Related Issues
   - Agricultural Research and Extension

...Contd....
• Agricultural Research
• Extension

– Management of Infrastructure
• Exploiting the Available Irrigation Potential
• Raising Water-Use Efficiency
• Input Subsidies and Pricing of Irrigation Water and Rural Electricity

– Credit Reforms

– Measures to Conserve Land and Water Resources
• Watershed Development
• Joint Forest Management (JFM)
• Hill and Tribal Areas
• Flood-Proofing of Flood-Prone Agriculture

– Land Ceiling and Tenancy Laws
• Conclusion

21. Industrial Growth and Policy .......................................................... 350

– Extent and Pattern of Industrialisation During the British Rule

– Industrial Control Regime
• Performance of the Industrial Licensing System

– New Economic Policy

– Industrial Growth

– Phases of Industrial Growth
• Industrial Growth in the 90s
• Comparative Growth Rates in the ’80s and the ’90s
  – Relative Contribution of Sectors to Total Production

– Profile of Industrial Growth
• Fall in Potential as well as Actual Industrial Growth
• Shift in Favour of Registered Manufacturing
• Decline in Employment Growth in Organised Manufacturing
• The Stagnant Share of Manufacturing Sector
  – The Manufacturing Slowdown
• Factors Causing the Industrial Slowdown: Some Hypotheses
  – Infrastructure Constraints in the Industrial Sector

• Summing Up
  – Recovery in Industrial Growth Since 2002-03

22. Industrial Policy ............................................................................. 375

– Industrial Policy Resolution of 1956

– Liberalisation of the 90’s
• New Industrial Policy - 1991
- Industrial Licensing
- Foreign Investment
- Foreign Technology
- Public Sector
- MRTP
- Decisions of the Government
- Industrial Policy: Recent Policy Initiatives
  - Industrial Licensing
  - Location Policy
  - Foreign Direct Investment
  - Image and Attitude
- Industrialisation and Development (MTA)
  - World Class Infrastructure
  - Labour Laws

23. Public Sector in the Indian Economy

- The Rationale
- Growth in Investment in Central Government Enterprises
- Role of Public Sector
  - Public Sector and Employment
  - Share of the Public Sector in GDP
  - Share of the Public Sector in Savings and Capital Formation
- Performance of Public Enterprises
- New Directions of Policy: 1991 Industrial Policy
  - Disinvestment of Public Sector Share-holding
  - Issue of Privatisation
  - Issues in Disinvestment in India
  - Disinvestment: Policy and Practice
  - Disinvestment Strategies
  - Welfare Gains from Privatisation of Profitable PSEs
- Conclusion

24. Small Scale Industrialisation

- Small Industry
  - Rationale for Supporting Small Scale Enterprises
  - Definition of Small Scale Industries
  - Small Scale Reservation Policy
  - Spatial Distribution of SSEs
  - Impact of SSI Reservation on Exports
  - Conclusions
- New Small Enterprise Policy

...Contd....
Understanding the Problems of Indian Economy

...Contd....

- Small and Tiny Enterprises
- Village Industries
  - Performance of Small Scale Industries
  - Sickness in SSI Sector

B. EXTERNAL SECTOR

25. Foreign Trade

- Constraints Arising from Foreign Trade and Import Substitution based Policies
- Inward Looking Strategy
- Broad Trends: Exports and Imports
  - Exports
    - Factors for Export Growth
  - Imports
    - Factors for Imports Growth
- Exports (X) and Imports (M)
- Changing Structure of India's Foreign Trade
- India's Foreign Trade: Policy, Performance and Structural Change During Nineties
  - Comparison between 90's and 80's
    - Trade GDP Ratio
    - Trade Deficit-GDP Ratio
- Structural Change in Exports
  - Changes in terms of Broad Categories
  - Commodity Composition: Exports
  - Move Towards Value-addition
  - Moving away from Traditional Exports towards New Manufactured Products
- India's Share in Global Exports: Compositional Change
- Commodity Composition of Imports
- Direction of Foreign Trade
  - Direction of Exports
  - Direction of Imports
- Summing Up
- Balance of Trade
  - India's Balance of Trade
  - Causes of Unfavourable Balance of Trade
    - Large Increase in Imports
    - Modest Growth in Exports
      - External Factors
Internal Factors
- Measures to Correct Deficit in Balance of Trade
- Restrictions on Imports
- Export Promotion

26. Balance of Payments and Trade Policy

- Concepts
- Trade Policy: An Overview
- The Political Economy of the Foreign Exchange Regimes
- Trade Policy Since 1991
- India's Balance of Payment Trends 1950-2000
  - The Decades of Fifties and Sixties
  - Balance of Payments in the Seventies
    - A Decade of Comfort
  - Balance of Payments upto 1981-82
    - The Period of Difficulties
  - Balance of Payments during 1982-83 to 1984-85
    - Easing of Pressure
  - Balance of Payments During 1985-90
    - The Build-up to the Crisis
    - The Crisis: 1990-92
  - Balance of Payments during 1993-94 to 2004-05
  - Invisibles
- Capital Account, External Debt and Exchange Rate
  - Approach, Developments and Issues
- Foreign Investment
  - Magnitude
  - FPI
  - NRI Deposits
- External Commercial Borrowings
- Decline in Foreign Aid
- Impact of Reforms on BoP
- External Debt Management
- Exchange Rate Management
  - Transition to Market Determined Exchange Rate System
  - NEER or REER
- Foreign Exchange Reserves: Approach, Developments and Issues
  - Approach
  - Capital Inflows, Foreign Exchange Reserves and Growth
- Summing Up

...Contd....
27. Foreign Direct Investment in India: Policy, Trends and Impact

- FDI Policy: A Historical Perspective
  - First Phase 1950-1967
  - Second Phase 1967-1980
  - Third Phase 1980-90
  - Fourth Phase 1991 Onwards

- Trends in FDI – An Aggregative Picture
- Changes in Sectoral Composition
- Changes in the Sources of FDI
- Pattern of FDI by Type of Approvals
- Comparative Performance of India and China
- Impact of FDI
  - Impact of FDI: Performance of FDI-Companies in India
  - Comparative Performance: FDI versus Non-FDI Companies
- Prospects of FDI

28. Globalisation and Indian Economy

- Introduction
- India's Attitude
- Gains and Losses from Globalisation
  - Trade in Goods and Services
  - Movement of Capital
  - Financial Flows
- Concerns and Fears
  - Effects on Distribution of Income
  - Autonomy
  - Insecurity and Volatility
- India and the External Sector
- Framework of Policy
  - Demands on the Trading System
  - Rich Country Initiatives
  - Actions by India
- Conclusion

29. WTO and India

- WTO Issues

Bibliography