CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 1

Population

Learning Objectives

At the end of this unit, you will be able to :

- ♦ know the meaning of population.
- ♦ get familiar with demographic trends in India.
- ♦ understand how big population in India is acting as a drag on its economic growth.
- ♦ understand the causes of rapid population growth in India.
- ♦ know the steps taken by the government to meet the challenge of high population growth.

1.0 MEANING OF POPULATION

In common parlance, population refers to the total number of people residing in a place. Thus, population of India means the total number of people living in India. There was a time when growth in population was considered desirable. There are still certain countries (example, Australia), which give incentives to people to have large families and hence have big population of the country. For them, more number of persons is desirable as

- It provides work force to produce.
- It provides market for the products produced.
- It may promote innovative ideas.
- It may promote division of labour and specialisation.

However, there are countries (example, India) for whom more number of persons is not desirable as

- There may not be adequate jobs to absorb all additional people.
- They put pressure on means of subsistence.
- They put pressure on social overheads (hospitals, schools, roads etc.)
- They may result in increased consumption and reduced savings and hence slow down capital formation.
- They may increase dependency.

Actually, whether a big and growing population is an asset or a liability for the economy depends upon economy to economy.

1.1 DEMOGRAPHIC TRENDS IN INDIA

Size of Population : The size of population is determined in terms of number of persons. Considering the present boundary of India (i.e., except Pakistan and Bangladesh), the population in 1901 was 23.84 crores and after one hundred years, in 2001 it was 102.27 crores. Thus, over a period of 100 years, our population has more than quadrupled. In *2008-09* the population was *115* crores. The population during various census years is given in Table 1.

Table 1 : India's Population (1901 - 2001) (in crores)

Census Year	Population
1901	23.84
1911	25.21
1921	25.13
1931	27.90
1941	31.87
1951	36.11
1961	43.92
1971	54.81
1981	68.33
1991	84.33
2001	102.70

The Table shows how population has grown in size over the 20th century. As far as the size of India's population is concerned India ranks second in the world after China. India has only about 2.4 per cent of the world's area and less than 1.2 per cent of the world's income but accommodates about 16.7 per cent of the world's population. In other words, every sixth person in the world is an Indian.

Rate of Growth : Table 2 shows the rate of growth of population in India. It shows growth rate of population per decade and per annum.

Table 2 : Growth of population

Decade	Growth Rate per decade	(Per cent) per annum
1901-1911	05.74	00.56
1911-1921	(-)00.31	-00.03
1921-1931	11.00	01.04
1931-1941	14.22	01.33
1941-1951	13.31	01.25
1951-1961	21.64	01.96
1961-1971	24.80	02.20
1971-1981	24.66	02.22
1981-1991	23.86	02.14
1991-2001	21.34	01.93

During 1901-11, the population grew by 5.74 per cent over the decade or 0.56 per cent per annum. The next decade saw a fall in the growth rate. In fact, there was a decrease in the population and growth rate became negative. Since 1921, population has again started increasing. In fact, year 1921 is known as 'Year of Great Divide' for India's population. The slow or negative growth during 1901-21 was due to rapid and frequent occurrence of epidemics like cholera, plague, influenza and famines. Since Independence, the rate has not only been positive but crossed the 2 per cent mark. Between 1961-1991, the growth rate has remained above 2 per cent per annum. Only in 1991-2001 decade, the growth rate has come down to 1.93 per cent per annum.

Birth rate and Death rate : Table 3 shows birth and death rates in India since Independence. Birth rate refers to number of birth per thousand of population. Similarly, death rate refers to number of deaths per thousand of population. We see from the table the death rate has declined significantly from 27.4 in 1951 to 8.4 in 2001 and *7.4* in *2007* and birth rate, although has declined but the decline is not so remarkable. Birth rate was 39.9 in 1951, it fell to 25.4 in 2001 and to *23.1* in *2007*.

Table 3 : Crude Birth and Death Rate

Year	Birth Rate	Death Rate
1951	39.9	27.4
1961	41.7	22.8
1971	36.9	14.9
1981	33.9	12.5
1991	29.5	9.8
2001	25.4	8.4

Among all the states, Kerala has the lowest birth rate of 14.7 (2007) and Uttar Pradesh has the highest birth rate of 29.5 (2007). Considering death rate, West Bengal has the lowest death rate of 6.3 and Orissa has the highest death rate of 9.2 in 2007.

Density of population *:* Density of population refers to the number of persons per square kilometer. The changes in the density of population have been indicated in Table 4 :

Table 4 : Density of Population

Year	Density of population
1951	117
1961	142
1971	178
1981	216
1991	274
2001	324

Density of the population before Independence was less than 100. But after Independence, it has increased rapidly from 117 in 1951 to 274 in 1991 and further to 324 in 2001. Thus the pressure of population on land has been rising. The density of population is not the same for all the States; while Kerala, West Bengal, Bihar and U.P. have density higher than the average density, Andhra Pradesh, Himachal Pradesh, Gujrat, Madhya Pradesh, Maharashtra, Karnataka, Orissa, Rajasthan, Sikkim etc. have density lower than the nation's average. This difference could be due to the differences in natural resources endowment, level of development etc. *West Bengal is the most densely populated state in the country with 904 persons living per sq. km. followed by Bihar with 880.*

If we consider all states and union territories of India, Delhi has the highest density of population – with 9294 persons, followed by Chandigarh with 7903 persons living per square kilometre.

Inter-State variations in India in the density of population are also very informative about the demographic situation in the country. For example, we have Delhi on one side with density of more than 9000 and on the other side Arunachal Pradesh with density as low as 13 persons per sq. km. Even we can make a guess about the level of development seeing the density of the area. Generally, it has been noticed that areas which are industrially well developed experience higher density vis-a-vis areas which are not. But if in an economy, agricultural sector is dominant, better climate, rainfall and irrigation facilities exercise considerable influence on the density of population.

***Sex ratio** :* Sex ratio refers to the number of females per 1000 males. The following table gives sex-ratio since Independence.

Table 5 : Sex Ratio (females per 1000 males)

Census Year	Sex ratio
1951	946
1961	941
1971	930
1981	934
1991	927
2001	933

The above Table sows that sex ratio, is highly favourable to males than females. This speaks of a very important characteristic of our society i.e., our society is male dominated. This is in contrast to what is found in other countries of the world specially the more advanced one. Till late, there was great tendency among people in India to get the sex of the unborn child medically tested and get the pregnancy terminated if it was female. But now these tests have been banned. The recent census (2001) shows that there has been a marginal increase in sex ratio. Sex ratio was 927 in 1991. Now it is 933. That means the number of males per thousand females is on decrease. For rural and urban India this ratio was 946 and 900 respectively in 2001.

If we analyse State-wise figures, we find the sex ratio is favourable to males in all the States except Kerala. In Kerala, ratio of females to males in 2001 was 1058. Kerala is the State which provides better status to women as compared to other States. A number of reasons are ascribed for a high ratio of males to females. These are:

(i) Neglect of female child and greater care for the male child in general results in higher mortality in the former case than the latter.
(ii) High death rate among females specially during the time of child birth and due to low resistance power resulting from a number of deliveries without having proper diet and rest makes the sex ratio unfavourable to females.
(iii) Under-reporting of female births.

Haryana has the lowest female sex ratio of 861 (2001) among states.

Life-expectancy at birth : Life expectancy refers to the mean expectation of life at birth. If death rate is high and/or death occurs at an early age, life expectancy will be low and, it will be high if death rate is low and/or death occurs at an advanced age. The following Table shows life expectancy at birth both for males and females.

Table 6 : Life expectancy at Birth (in years)

Period	Male	Female	Overall average
1951	32.5	31.7	32.1
1961	41.9	40.6	41.3
1971	46.4	44.7	45.6
1981	54.1	54.7	54.4
1991	59.0	59.7	59.3
2001	62.3	65.3	63.8

Life expectancy has improved over the years. During 1901-11, life expectancy was just 23 years. It remained below 30 years till the decade 1921-30 and remained below 40 years till the period 1941-50. However, it improved to 55 in 1981 and to 60 in 1991 and further to 63.8 in 2001. Considerable fall in the death rate is responsible for improvement in the life expectancy at birth. This could be one of the reasons for favourable sex ratio for males.

Amongst the states, Kerala had the highest life expectancy at birth at 74 and Madhya Pradesh had the lowest life expectancy at birth at 58 in 2006.

Life expectancy at birth in India compares badly when compared with the life expectancy at birth in developed economies and some of the developing economies such as Sri Lanka and Thailand. India can still improve its life expectancy by increasing moderately the expenditure on public health and medicine.

Literacy ratio : Literacy ratio refers to number of literates as a percentage of total population. Literacy ratio in general and among males and females is shown below :

Table 7 : Literacy Ratio

Census Year	Literate persons	Males	Females
1951	16.7	25.0	7.9
1961	24.0	34.4	13.0
1971	29.5	39.4	18.7
1981	43.6	56.4	29.75
1991	52.21	64.1	39.3
2001	65.38	75.85	54.16

In 1951, only one-fourth of males and one-twelfth of females were literate. Thus on an average only one-sixth of the people of the country were literate. During 1951-2001, there has been considerable improvement in literacy. This is clear from the figures of 2001. In 2001, 76 per cent of males and 54 of females were literate giving an overall literacy rate of 65. Compared with other developed countries, this rate is very low. Illiteracy among 35 per cent of the population is bound to affect the progress of family planning programme. It has been found that literate persons are more responsive to family planning programme than illiterate ones.

Literacy is higher among urban population compared with rural population. This could be because of better facilities of education in urban areas compared to the facilities available in rural areas. In 2001, the proportion of literacy among males was 86 per cent in urban areas as against 71 per cent in rural areas. Similarly 73 per cent of the females in urban areas were literate as against about 46 per cent in rural areas.

Literacy rates are different among the States also. Kerala has the highest literacy ratio of 90.86 per cent and Bihar has the lowest literacy ratio of 47 per cent. As against about 90 per cent literacy in Kerala, about 82 per cent in Goa, *77 per cent in Maharashtra and Himachal Pradesh, and 73 per cent in Tamil Nadu,* literacy is less than 50 per cent in Bihar, and around 60 per cent in Rajasthan and Uttar Pardesh. The differences are even greater when we compare literacy among females in the different states.

The Eighth Plan aimed at complete eradication of illiteracy among people in the age group of 15 to 35 years by the end of the plan. Seeing the overall progress on literacy front till now, this seems to be a difficult target. According to one estimate, it would take more than 30 years for the Indian population to be fully literate.

1.2 CAUSES OF THE RAPID GROWTH OF POPULATION

Population generally increases because of

(i) high birth rate.

(ii) relatively lower death rate.

(iii) immigration.

India's population has mainly increased because of high birth rate and relatively low death rate.

Causes of high birth rate

(1) India is predominantly agrarian economy. In an agrarian economy, children are considered assets and not burdens as they help in agricultural fields.

(2) The process of urbanisation is slow in India and it has failed to generate social forces which force people to have small families.

(3) There is high incidence of poverty in India. Poor people tend to have large families.

(4) Marriage is both a religious and social necessity in India. Presently in India by the age of 50 only 5 out of 1,000 Indian women remained unmarried.

(5) Not only marriages are almost compulsory, they take place at quite young age in India.

(6) Most Indians on account of their religious and social superstitions desire to have more children having no regard to their economic conditions.

(7) Joint family system in India also encourages people to have large families.

(8) Lack of education among people especially among women causes people to have irrational attitudes and hence big families.

Causes of fall in the death rate

(1) Famines which were wide spread before Independence, have not occurred on a large scale since Independence. Whenever droughts occurred, they have been dealt with adequately.

(2) Cholera and small pox often resulted in epidemics before Independence. Now small pox is completely eradicated and cholera is very much under control. Similarly there has been decline in the incidence of malaria and tuberculosis. These have resulted in reducing the death rate.

(3) Other factors which have reduced the death rate are: spread of education, expanded medical facilities, improved supply of potable water, improvement in the nutritional level and so on.

1.3 GROWTH OF POPULATION IN INDIA AND ITS EFFECTS ON ECONOMIC DEVELOPMENT

India is passing through the phase of population explosion. Population explosion is a transitory phase according to the theory of Demographic Transition. This theory says that every country passes through 3 stages - In the first stage both birth rate and death rate are very high. Hence, population remains stable. In this stage, birth rate is high because people are illiterate, poverty is wide-spread, marriages are conducted at early age and superstitions cause people to have big families. Death rate is high on account of malnutrition, lack of medical facilities, absence of hygienic conditions etc.

In the second stage, birth rate comes down slightly but death rate comes down very heavily. Death rate comes down due to improvement in medical facilities and improved standard of living. Birth rate remains high because of social beliefs and customs do not change overnight. This stage is also called the stage of population explosion as population increases at a very high rate during this stage.

In the third stage, greater education causes people realise the importance of smaller families and better standard of life. Old social customs give place to new ideas. As a result, birth rate is low. Death rate is low because of better hygienic conditions and better medical facilities. The net result is population grows at a very modest rate.

Now we will analyse how growth of population has affected economic growth in India.

(i) **Growth of national income :** National income rose by more than *12* times during 1950-51 to *2007-08,* but on account of increase in population by *more than* 2 times, the per capita income rose by a little more than *3.25* times only. The average annual growth during this period was about 4.4 per cent but could effect an increase of only *2.3* per cent in per capita income.

(ii) **Food supply :** The total production of foodgrains increased from 51 million tonnes in 1951 to about *231* million tonnes in *2007-08*. During the same period population increased from 361 million to *1138* million. Consequently, the per capita domestic availability of foodgrains increased from 395 grams to *443* grams signifying a very small increase in per capita availability. As compared to increasing demand for food, per capita availability of food grains is insufficient. If the present trend of increase in population continues demand for foodgrains might outgrow population unless the increase in population is contained by vigorous family planning programmes.

Also, increase in production of foodgrains has to be brought about more and more through increasing productivity because per capita availability of cultivable area is coming down gradually. In 1951 it stood at 0.33 hectare per capita which came down to 0.17 hectare per capita in recent years. A falling land-man ratio has to be compensated by increase in productivity per acre.

(iii) **Unproductive consumers :** With a rapid increase in population, the ratio of children and old persons in total population has a tendency to increase which leads to higher burden of unproductive consumers on the total population. In India, around *63* per cent of the population is in the age group *15-64* and *37* per cent of the population is under 15 or above *64*. An increase in the ratio of unproductive consumers places additional burden on the resources of the family as well as the public utility services like education, health etc. Economists have calculated the burden of dependency in terms of food, education and health. Such dependency load is an important contributing factor to the vicious circle of poverty and under-development in developing countries.

(iv) **Problem of unemployment :** With fast growing population, the labour force increases rapidly and there is a pressure for creating jobs for the growing labour force. In absence of insufficient number of jobs, the number of unemployed people increases.

In India, in successive plans job opportunities have been created but they have fallen short of the required numbers and as a result the backlog of unemployed people has become very large. It is estimated that unemployed and underemployed persons constitute nearly 10 per cent of the labour force in India. Moreover, it is projected that total labour force will increase by 45 million in the Eleventh Plan. Jobs will have to be created for these people plus the people in the backlog.

(v) **Capital formation :** It is said that a part of capital formation investment normally goes in maintaining the existing standard of living for the additional population. For example, with a population growth of 2 per cent an investment of around 8 per cent (with a capital output ratio of 4 : 1) of national income would just be able to maintain the existing standard for the additional population. Therefore, for any improvement in the standard of living, the capital investment has to be very large. Thus, for 5 per cent rise in per capita income the resources needed for the economic development will be 20 per cent. Thus to bring about an increase of 5 per cent in per capita income, an investment of 28 per cent (8 per cent for demographic investment and 20 per cent for economic investment) will be needed.

(vi) **Ecological degradation:** A rapid growth population in India, as in many other countries, has somewhat upset the ecological balance. There is a gradual shrinkage of area covered by forests as also open land. Denudation of forest means serious soil erosion and floods with their adverse consequences on food production. Also, removal of forests has led to unfavourable climatic changes evidenced by prolonged droughts over extensive areas. There is also a great pressure on agricultural land leading to depletion of natural soil fertility, increase in alkalinity and salinity of soils. A high concentration of population in urban areas, unsupported by adequate infrastructural facilities (drinking water, sanitation, transportation, housing etc.) is a cause of serious pollution.

1.4 GOVERNMENT MEASURES FOR SOLVING THE POPULATION PROBLEM

Population growth is not to be left to natural, biological and other forces. Policy intervention is needed to plan and regulate it in tune with the needs of the economy and society. Even if economic growth rate is more than population growth rate, a developing country cannot afford to derive satisfaction from this fact but should deliberately adopt some policy measures to slow down the rate of population growth. In a developing country like India, the fruits of rapid economic growth will have little impact on society if population growth is not controlled. Much of the gains of economic growth is neutralised by rapid increase in numbers. Even inflation which is another neutraliser of economic growth is partly a function of population growth.

Family planning which was and is a principal component of the population policy was taken up on a modest scale with emphasis on clinical approach during the first decade of planning. The emphasis was mainly on research in the field of demography, physiology of reproduction, motivation and communication. Since these measures did not yield the expected results, a full fledged department of family planning was created in 1966. Various contraceptive methods were offered and the acceptors had the freedom to choose any of the methods offered. This has been known as 'cafeteria approach'. The allocation towards family planning programmes kept on increasing from plan to plan. There was a significant shift in the strategy of the government towards population under the Fifth Plan. A new National Population Policy replaced earlier Population Policy of the government. It was felt that to wait for education and economic development to bring about a drop in fertility was not a practical solution. The very increase in population made economic development slow. Therefore, a direct assault on the problem was made. Under the policy the marriageable age was raised to 18 years and 21 years for girls and boys respectively, monetary incentives were offered for voluntary sterilization and family planning was made a mass movement by involving various community groups like Zila Parishad, Panchayat Samitis, Co-operative Societies and trade unions at the grass roots levels.

The implementation of parts of this policy during Emergency (1975-77) had disastrous consequences since the implementers indulged in all types of high-handed practices. The result was that the family planning programme became an object of popular fear and hatred. Learning from the experience of Fifth Plan, in Sixth Plan and plans thereafter again the emphasis shifted to education and economic development as a means of solving population problem.

National Population Policy, 2000

With a view to encourage two-child norm and stabilizing population by 2046 A.D. the Government adopted the National Population Policy (NPP-2000). The following are the main features of the NPP :

- Address the unmet needs for basic reproductive and child health services, supplies and infrastructure.
- Make school education up to age 14 free and compulsory, and reduce dropouts at primary and secondary school levels to below 20 per cent for both boys and girls.
- Reduced infant mortality rate to below 30 per 1000 live births.
- Reduce maternal mortality ratio to below 100 per 100,000 live births.
- Achieve universal immunisation of children against all vaccine preventable diseases.
- Promote delayed marriage for girls, not earlier than age 18 and preferably after 20 years of age.
- Achieve 80 per cent institutional deliveries and 100 per cent deliveries by trained persons.
- Achieve universal access to information/counselling, and services for fertility regularisation and contraception with a wide basket of choices.
- Achieve 100 per cent registration of births, deaths, marriage and pregnancy.
- Prevent and control communicable diseases.
- Integrate Indian System of Medicine (ISM) in the provision of reproductive and child health services, and in reaching out to households.
- Promote vigorously the small family norms to achieve replacement levels of TFR (Total Fertility Rate).
- Bring about convergence in implementation of related social sector programs so that family welfare becomes a people centred program.

Tenth plan Targets: Maternal Mortality Rate (MMR) refers to the number of maternal deaths per 1,00,000 live births. Infant Mortality Rate refers to number of babies dying before the age of one, per 1000 live births. As per 2007 data, Infant mortality rate in India is highest for Madhya Pradesh (72) and lowest for Kerala (13).

The Tenth Plan targeted a reduction in Infant Mortality Rate (IMR) to 45 per 1000 by 2007 and 28 per 1000 by 2012, reduction in Maternal Mortality rate (MMR) to 2 per 1000 live births by 2007 and 1 per 1000 live births by 2012 and reduction in decadal growth rate of the population between 2001-2011 to 16.2 per cent. *Seeing the achievements so far it is unlikely that the targets set would be timely achieved. For example, IMR is still very high at 55 (2007). Similarly, MMR is also quite high at 2.54 (2001-04).*

SUMMARY

In this Unit we have learned a very important fact that whether a growing population stimulates growth or retards growth depends upon the size of the economy, active population of the country, level of development and combination of all factors that determine growth. Taking the Indian case we find that India is over populated and is instrumental in retarding growth.

While analyzing the population policy of India we find that economic and social measures have not been given proper weightage and complete reliance has been placed on family planning which is not very effective owing to widespread illiteracy and poverty in the economy. Even the family planning programme is not well integrated and well planned.

CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 2

Poverty

Learning Objectives

At the end of this unit, you will be able to :

- know the difference between absolute poverty and relative poverty.
- understand how poverty is measured in India.
- be familiar with the causes of poverty in India
- know the government's programmes for poverty alleviation.

Poverty is a widespread social evil in underdeveloped countries of the world, particularly in Asia and Africa. There is no standard definition of poverty for all the countries of the world. Some countries approach poverty in the absolute terms and some countries approach poverty in relative terms.

2.0 ABSOLUTE POVERTY AND RELATIVE POVERTY

When poverty is taken in absolute terms and is not related to the income or consumption expenditure distribution, it is absolute poverty.

On the other hand, when poverty is taken in relative terms and is related to the distribution of income or consumption expenditure, it is relative poverty.

The concept of absolute poverty is relevant for the less-developed countries. To measure absolute poverty, absolute norms for living are first laid down. These relate to some minimum standard of living. These may be expressed or measured in terms of income/consumption expenditure. Given this, one classifies all those as poor who fall below the standard. The number or percentage of such poor in the country's population gives the measure of poverty.

The concept of relative poverty is more relevant for the developed countries. According to the relative standard, income distribution of the population in different fractile groups is estimated and a comparison of the levels of living of the top 5 to 10 per cent with the bottom 5 to 10 per cent of the population reflects the relative standard of poverty. Gini co-efficient are often used for measuring poverty in relative sense.

In India we use the concept of absolute poverty for measuring poverty. For this a minimum level of consumption standard is laid down (known poverty line) and those who fail to reach this minimum consumption level are regarded as poor.

2.1 POVERTY IN INDIA

It is generally agreed that only those people who fail to reach a certain minimum level of consumption standard should be regarded as poor. Different economists have defined poverty line in different ways. The Planning Commission has adopted the definition provided by the 'Task force on Projections of Minimum Needs and Effective Consumption Demand' according to which, a person is below the poverty line if his daily consumption of calories is less than 2400 in rural areas and 2100 in urban areas. On the basis of this, the monthly cut-off points turned out to be Rs. 76 for rural areas and Rs. 88 for urban areas at 1979-80 prices.

For some times, these cut offs were used by converting them into current rupees using the implicit price deflator of consumption in the National Accounts. This process had the disadvantage of ignoring interstate differences in price levels as well as variations from state to state in urban to rural price differentials. These problems were dealt with by an Expert Group in 1993 whose recommendations for new poverty line were adopted by the Planning Commission. These "Expert Group" poverty lines are now used in India. According to these procedures, poverty lines are defined at the State level, separately for rural and urban households. Each line is updated by a state specific price index, the state consumer price index for agricultural labourer for rural lines and the state consumer price index for industrial workers for urban lines. There is no country wide poverty line as such. The poverty ratio at all-India level is obtained as the weighted average of the state-wise poverty ratio.

The Planning Commission has been estimating the incidence of poverty at the national level as well as state level. For this, it uses large sample surveys on household consumer expenditure conducted by the National Sample Survey organisation (NSSO) once in five years. As such NSSO uses two types of recall periods – uniform recall period (URP) and mixed recall period (MRP). While the URP uses 30-day recall/ reference period for all items of consumption, MRP uses 365 day recall/reference period for five infrequently purchased non-food items namely, clothing, footwear, durable goods, education and institutional medical expenses. Table 8 shows incidence of poverty based on NSS 61st Round of consumer expenditure (2004-05).

Table 8: Incidence of Poverty (per cent)

Sl. no.	Category	1993-94	2004-05
	By URP Method		
1.	Rural	37.3	28.3
2.	Urban	32.4	25.7
3.	All India	36.0	27.5
	By MRP Method		
		1999-2000	**2004-05**
4.	Rural	27.1	21.8
5.	Urban	23.6	21.7
6.	All India	26.1	21.8

Source : *Economic Survey 2008-09*

The URP data places the poverty ratio at 28.3 per cent in rural areas, 25.7 per cent in urban areas and 27.5 per cent for the country as a whole in 2004-05. The corresponding poverty ratios for MRP data are 21.8 per cent for rural areas, 21.7 per cent for urban areas and 21.8 for the country as a whole. The percentage of poor in 2004-05 estimated URP consumption distribution of NSS 61st round of consumer expenditure data are comparable with the poverty estimates of 1993 (50th round) which was 36 per cent for the country. The percentage of poor in 2004-05 estimated from MRP consumption distribution of NSS 61st round of consumer expenditure data are roughly comparable with the poverty estimates of 1999-2000 (55th round) which was 26.1 per cent as a whole (Table 8).

It has also been calculated that for the country as a whole the per capita consumption expenditure of 68 per cent population in 1999-00 was Rs 20 per day. This percentage reduced to 60.5 of population in 2004-05.

While poverty rates have declined significantly, the malnutrition has remained stubbornly high. Around 46 per cent children below 3 years of age were underweight and malnourished in 2004-05 compared to 47 per cent in 1998-99.

The Tenth Plan had set a target of reduction in poverty ratio to 19.3 per cent by 2007 and to 11 per cent by 2012. The targets for rural and urban poverty in 2007 *were* 21.1 per cent and 15.1 per cent respectively.

2.2 CAUSES OF POVERTY

Economic Causes : Various causes of poverty can be classified under economic, political and social heads. Economic backwardness or stagnation is often the characteristic of the countryside of a developing country like India where majority of the population lives. Agriculture is the main occupation of the rural poor and contributes *17* per cent of the GDP. Yet the income it provides to agricultural workers is substantially below average and almost at the subsistence level. There are a number of factors which are responsible for low income in the agricultural sector such as small size of land holdings, inadequate irrigation facilities, lack of enough financial resources needed for investment for ensuring development and raising productivity. Thus, productivity in small farms is generally low resulting in very low levels of returns. The condition of landless agricultural labourer is worse. The economic conditions of persons engaged in non-agricultural activities in the rural sector are equally dismal.

Political and Social Causes : Political vested interests are also equally responsible for widespread poverty in the economy. But whereas these interests can be countered by following the right type of policies, social factors responsible for promoting poverty are more severe and are interwoven in the web of society itself. Inhibitions and handicaps arising from caste and religion are hard to overcome and require considerable effort by way of propaganda and education through mass media, reorientation of education system and so on.

Other Causes : Apart from these, other factors such as family size and family composition, poor levels of education and skills, lack of motivation and will to get out of the rut of poverty and misery, the feudalistic system of bonded labour in some parts of the country and so on, are also responsible for depressed standards of living among people.

2.3 GOVERNMENT PROGRAMMES FOR POVERTY ALLEVIATION

Poverty alleviation and raising the average standard of living have always been stated as the central aims of economic planning in India. The plan strategies to achieve these aims can be broadly divided into three phases. In the first phase, the prime emphasis was on growth. It was expected that growth through improvement in infrastructure and heavy industries will take care of the problem of unemployment and poverty. In the second phase, beginning with

Fifth Plan, poverty alleviation came to be adopted as an 'explicit objective' of economic planning. Several specific programmes for poverty alleviation and employment generation directed towards selected target groups were launched. In the third and final (present) phase, emphasis shifted to 'growth' and 'poverty alleviation' as two complementary actions. The various recent programmes for poverty alleviation are as follows. The earlier such programmes have been streamlined and merged into these programmes.

(1) ***Pradhan Mantri Gram Sadak Yojana (PMGSY) :*** The PMGSY was launched in December, 2000 to provide road connectivity through good all weather roads to *all the eligible un-connected habitations in the rural areas* by the end of the Tenth Plan. Upto March, 2009, a total length of *2,14,281* km of road works had been completed.

(2) ***Indira Awas Yojana (IAY) :*** This is a major scheme for giving financial assistance for construction of houses to be given to the poor living in rural areas. Up to December 2006, about 153 lakh houses were constructed/upgraded under the scheme. During 2007-08, around 9.4 lakh houses were constructed and during 2008-09, around 21 lakh houses were constructed under the scheme.

(3) ***Swaran Jayanti Gram Swarozgar Yojana (SGSY) :*** This was introduced in April, 1999 as a result of restructuring and combining the Integrated Rural Development Programme (IRDP) and allied programmes and Million Wells Scheme (MWS). It is the only self-employment programme for the rural poor. It aims at bringing the self employed above the poverty line by providing them income generating assets. *Upto March, 2009, about 121 lakh swarojgaries have been assisted.*

(4) ***Sampoorna Grameen Rojgar Yojana (SGRY) :*** This programme was launched in 2001. This programme aims at (i) providing wage employment in rural areas (ii) food security and (iii) creation of durable community, social and economic assets. The earlier programmes of the Employment Assurance Scheme (EAS) and Jawahar Gram Sammridhi Yojana (JGSY) have been merged with this programme since April, 2002.

(5) ***National Rural Employment Guarantee Scheme (NREGS) :*** National Food for Work Programme was launched in November, 2004 in 150 most backward districts of the country. The objective was to intensify the generation of supplementary wage employment. The programme was open to all rural poor who *were* in need of wage employment and desired to do manual unskilled work. The National Rural Employment Guarantee Act was notified in September, 2005 and the scheme was launched in February, 2006. The on-going programmes of Sampoorna Grameen Rozgar Yojana (SGRY) and National Food For Work Programme (NFFWP) *were* submerged in it. The objective of the Act is to enhance the livelihood security of the people in rural areas by generating wage employment through works that develop the infrastructure base of that area. The Act wants every State to make a scheme for providing not less than 100 days of guaranteed employment in a financial year to every households in the rural areas covered under the scheme and whose adult members volunteer to do unskilled manual work subject to the conditions laid down in the Act. During 2008-09, more than 4.47 crore households were provided employment under the scheme. This is a significant jump over the 3.29 crore households covered under the scheme during 2007-08.

(6) ***The Swarna Jayanti Shahkari Rozgar Yojana (SJSRY) :*** The SJSRY which came into operation from December'97, sub-summing the earlier urban poverty alleviation programmes viz., Nehru Rozgar Yojana (NRY), Urban Basic Services Programmes (UBSP) and Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP). The scheme aims to provide gainful employment to the urban unemployed or underemployed poor by encouraging the setting up of self-employment ventures or provision of wage employment. Under the scheme, 0.44 lakh urban poor were assisted to set up micro enterprises and 0.60 lakh urban poor were imparted skill training during 2007-08. In 2008-09, there was a significant jump in the number of beneficiaries under the scheme as nearly 9.5 lakh urban poor were assisted to set up micro enterprises and around 15 lakh urban poor were imparted skill training.

SUMMARY

In India, poverty is wide spread. Nearly one-fourth of the population is below the poverty-line. Reduction of poverty as a national objective had been mentioned in every five-year plan but serious efforts towards it were started only in the Fifth Plan. Now, there are many poverty-reducing employment schemes in India.

CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 3

Unemployment

Learning Objectives

At the end of this unit, you will be able to :

- get familiar with the meaning of unemployment.
- understand various types of unemployment.
- understand the nature of unemployment problem in India.
- know the incidence of unemployment in India.

Every sixth person in the world is an Indian and every third poor person in the world is also an Indian. The statistics speak about the gravity of the problems of unemployment and poverty which demand an immediate solution. It has been observed that with the increase in the number of unemployed persons poverty expands. Keeping in view this fact, removal of unemployment has been mentioned as one of the objectives of economic planning in all five year plans, but it has been given serious consideration only after Fifth Plan. Till Fifth Plan, there was no serious concern for solving the unemployment problem.

It was assumed that the gains of economic growth would percolate downwards and thus inequalities would decline and problems of poverty and unemployment and would be automatically solved. The growth of employment and removal of poverty were taken for granted. The connection between economic growth and other objectives as stated above is not as simple as it is often believed in this country. It has been observed in a number of less developed countries that economic growth generally benefits the elite groups and, as a result, economic inequalities grow. India's experience is precisely the same over the period. The growing unemployment over the years is generally attributed to this basic weakness in the approach of the Government.

3.0 MEANING AND TYPES OF UNEMPLOYMENT

Generally a person who is not gainfully employed in any productive activity is called unemployed. Unemployment is a complex phenomenon and takes many forms. The important forms are:

i) ***Voluntary unemployment :*** In every society, there are some people who are unwilling to work at the prevailing wage rate and there are some people who get a continuous flow of income from their property or other sources and need not work. All such people are voluntarily unemployed. Voluntary employment may be a national waste of human energy, but it is not a serious economic problem.

ii) ***Frictional Unemployment :*** Frictional unemployment is a temporary phenomenon. It may result when some workers are temporarily out of work while changing jobs. It may also result when the work is suspended due to strikes or lockouts. To some extent, frictional unemployment is also caused by imperfect mobility of labour. We may also say that frictional unemployment is due to difficulties in getting workers and vacancies together.

iii) ***Casual unemployment :*** In industries, such as construction, catering or agriculture, where workers are employed on a day to day basis, there are chances of casual unemployment occurring due to short- term contracts, which are terminable any time.

iv) ***Seasonal unemployment :*** There are some industries and occupations such as agriculture, the catering trade in holiday resorts, some agro-based activities like sugar mills and rice mills, in which production activities are seasonal in nature. So they offer employment for only a certain period of time in a year. People engaged in such type of work or activities may remain unemployed during the off-season. We call it seasonal unemployment.

v) ***Structural Unemployment :*** Due to structural changes in the economy, structural unemployment may result. It is caused by a decline in demand for production in a particular industry, and consequent disinvestment and reduction in its manpower requirement. In fact, structural unemployment is a natural concomitant of economic progress and innovation in a complex industrial economy of modern times.

vi) ***Technological unemployment :*** Due to the introduction of new machinery, improvement in methods of production, labour-saving devices, etc., some workers tend to be replaced by machines. Their unemployment is termed as technological unemployment.

vii) ***Cyclical unemployment :*** Capitalist biased, advanced countries are subject to trade cycles. Trade cycles - especially recessionary and depressionary phases cause cyclical unemployment in these countries. During the contraction phase of a trade cycle in an economy, aggregate demand falls and this leads to disinvestment, decline in production and unemployment. The solution for cyclical unemployment lies in measures for increasing total expenditure in the economy, thereby pushing up the level of effective demand. Easy money policy and fiscal measures such as deficit financing may help. Since cyclical phase is temporary, cyclical unemployment remains only a short- term phenomenon.

viii) ***Chronic unemployment :*** When unemployment tends to be a long- term feature of a country it is called chronic unemployment. Underdeveloped countries suffer from chronic unemployment on account of the vicious circle of poverty, lack of developed resources and their under utilisation, high population growth, backward, even primitive state of technology, low capital formation, etc.

ix) ***Disguised unemployment :*** So far, the types of unemployment which we have discussed above are all related to open unemployment. Apart from open unemployment we have disguised unemployment. Disguised unemployment commonly refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity so that their removal will not affect the volume of total output. Disguised unemployment in the strict sense, implies underemployment of labour. To illustrate, suppose a family farm is properly organized and four persons are working on it. If, however, two more workers are employed on it and there is no change in output, we may say that these two workers are disguisedly unemployed. This kind of unemployment is a common feature of under developed economies especially of their rural sector. In short, overcrowding in an occupation leads to disguised unemployment. It is a common phenomenon in an over populated country.

3.1 NATURE OF THE UNEMPLOYMENT IN INDIA

Most of the unemployment in India is definitely structural, that is, the structure of the economy is such that it does not absorb an increasing number of people coming to labour market in search of jobs. Apart from structural unemployment there is some cyclical unemployment which has resulted from industrial recession in urban areas. If we classify unemployment as rural and urban unemployment we find total urban unemployment is mainly of industrial unemployment and educated unemployment type and rural unemployment is seasonal and disguised in nature. Industrial unemployment is the one which has resulted from failure of the industrial sector to absorb the increasing labour force and educated unemployment results when a large number of educated people remain unabsorbed. Seasonal unemployment, generally, results in agricultural sector when a large number of small and marginal farmers and labourers do not get occupied during the off-season and disguised unemployment results when people appear to be occupied but actually they are not adding to production. This happens because of over-population which forces people to work on a small piece of land although their services on the land may not be required. It is estimated that over one-third of India's work force is disguisedly unemployed.

3.2 CAUSES OF UNEMPLOYMENT IN INDIA

The various causes responsible for widespread unemployment in India are as follows :

1. ***Growth without adequate employment opportunities :*** As economy grows usually employment also grows. But in India, most of the time, the economic growth has been inadequate and adequate number of jobs could not be created. In fact, for almost three decade 1950-80, GDP growth rate was as low as 3.6 per cent per annum. Such a low rate of growth did not push many jobs in the market. Since 1980s however, growth has accelerated to around 5-6 per cent but job creating capacity of the economy has not improved much.

2. ***Growing Population :*** Population has increased at a very fast pace since Independence but jobs have failed to keep pace with the population.

3. ***Inappropriate technology :*** India is a labour surplus and capital scarce economy. Under such circumstances, labour-intensive industries should have been given preference. But not only in industry but also in agriculture producers are increasingly substituting capital for labour. This has hindered the growth of job opportunities.

4. ***Inappropriate education system :*** The education provided in India has not much practical utility. The students receiving such education, even very high one, fail to get appropriate jobs.

3.3 EXTENT OF UNEMPLOYMENT IN INDIA

The backlog of unemployment at the beginning of the FYP-1 was 3.3 million to which were added 9.0 million new entrants during this period. The Plan provided additional employment to 7.0 million, thus leaving a back log of 5.3 million at the beginning of the FYP-2. In the subsequent plans, the back log has been continuously increasing, since the new jobs created during each plan period invariably fell short of new entrants to the labour force. As per the estimates the backlog of unemployment at the beginning of the FYP-9 was estimated to be of the order 34-35 million. The labour force was projected to increase by about 36 million during 1997-2002. Thus, the total number of persons requiring employment would be 70 million over the period 1997-2002. The Tenth Plan aimed at creating 50 million jobs during the plan. *The result of the 61st round of the NSSO shows that above 47 million persons were provided employment during 2000-2005.*

Before understanding the incidence of unemployment, it is better to understand the meaning of labour force, work force and unemployment rate.

Labour force : Labour force or in other words, the economically active population refers to the population which supplies or seeks to supply labour for production and, therefore, includes both 'employed' and 'unemployed' persons and the labour-force participation rate (LFPR) is defined as the number of persons in the labour force per 1000 persons.

Work-force : Work force is a part of labour force and refers to the population which is employed. Thus work force participation rate (WPR) is defined as the number of persons/ person-days employed per 1000 person/person days.

Unemployed rate **:** Unemployment rate is defined as the number of persons unemployed per thousand persons in the labour-force.

Measurement of Unemployment: There are three main measures of employment and unemployment.

1. ***Usual Status :*** This measure estimates the number of persons who may be said to be chronically unemployed. This measure generally gives the lowest estimate of unemployment especially for a poor economy because only a few can afford to remain without work over a long period.
2. ***Current Weekly Status (CWS) :*** This estimate reduces the reference period i.e. the period for which data is collected to one week. According to this estimate a person is said to be employed for the week even if he is employed only for a day during that week.
3. ***Current Daily Status (CDS) :*** The reference period here is a day. It counts every half day's activity status of the respondent over the week. For working out the rate of unemployed person-days the aggregated count of unemployed days during the reference weeks constitutes the numerator and the aggregated estimate of the total number of labour force days constitutes the denominator.

Having understood the meaning of various terms, we can now find the rate of unemployment in India. The following table shows that the labour force participate rate, work force participation rate and person unemployed in 2004 in India.

Table 9 : All India Labour force Participation Rate (2004) ***(NSSO - 60th round)***

(Number of persons per thousand population)

	WPR	*PU*	*LFPR*	*PU/LFPR*
UPS	411	9	420	2.14
CWS	370	20	390	5.12
CDS	330	33	363	9.09

WPR = Work Force Participation Rate

PU = Persons Unemployed

LFPR = Labour Force Participation Rate

The above table shows that in the year 2004, out of 1000 persons in the population, 420 persons were in the labour force according to UPS. Out of 420, 411 were working and 9 were unemployed. In other words, unemployed persons as percentage of labour force were 2.14 considering UP status. Similarly according to CWS and CDS, the unemployment rates were 5.12 per cent and 9.09 per cent respectively. The extent of unemployment actually varies considerably depending on the measure chosen. For example, the unemployment rate for the year 2004 in India is a low 2.14% based on UPS definition but it rises to 9.09% based on the CDS definition.(Table 9).

In order to assess the degree of unemployment in India it is relevant to compare the incidence of unemployment with unemployment in other countries. The table below shows the unemployment rates in selected countries :

Table 10 : Unemployment in Selected Countries *(per cent)*

Country	***2009***
India	7.2
Australia	5.8
Bangladesh	2.5
China	9.0
Indonesia	8.2
Japan	5.2
Malaysia	3.5
Pakistan	5.2
Sri Lanka	5.2

*(**Source :** World Factbook)*

If we look into the data on unemployment in India we find that the unemployment rates have first decreased and then risen. This is clear from the following table.

Table 11 : Unemployment Rate: Alternative measures

	UPS	CWS	CDS
1977-78	4.23	4.48	8.18
1983	2.88	4.51	9.22
1993-94	2.62	3.63	6.06
1999-00	2.78	4.41	7.31
2004-05	3.06	5.12	8.28

*(**Source :** 61st Round of NSSO - July 2004-June 2005 and Planning Commission)*

The latest round of NSSO on unemployment was conducted during July 2004 - June 2005. The 61st round of the NSSO survey reveals a faster increase in employment during 1999-2000 to 2004-05 as compared to 1993-94 to 1999-2000 (Table - 12). However, since labour force increased at a much higher rate than the increase in work force (employment), unemployment (on UPS basis) was higher *at 3.06 per cent of the labour force in 2004-05 compared to 2.70 per cent in 1999-2000. Incidence of unemployment had come down from 2.88 per cent in 1983 (38th round) to 2.62 per cent in 1993-94 (50th round)*

Table 12 : Employment and Unemployment (by UPS)

	1983	*1993-94*	*1999-2000*	*2004-05*	*1983 to 1993-94*	*1993-94 to 1999-2000*	*1999-2000 to 2004-05*
	In million				*Growth in per cent per annum*		
Labour Force	*277.34*	*343.56*	*377.88*	*428.37*	*2.06*	*1.60*	*2.54*
Workforce	*269.36*	*334.54*	*367.37*	*415.27*	*2.09*	*1.57*	*2.48*
Number of unemployed	*7.98*	*9.02*	*10.51*	*13.10*	-	-	-
	As a proportion of labour force in per cent						
Unemployment rate	*2.88*	*2.62*	*2.78*	*3.06*	-	-	-

As per the 61the round of National Sample Survey Organisation (NSSO) *(2004-05)* on the situation of employment and unemployment conducted, the following are the salient features of the trend of unemployment rates in the country :

- The unemployment rate went up between *1999-2000* to 2004-05. On the basis of current daily status, unemployment rate for males increased from *72* per thousand persons or *7.2* per cent to *80* per thousand persons or *8* per cent in rural areas and from *73* per thousand persons or *7.3* per cent to *75* per thousand persons or *7.5* per cent in urban areas (Table 13).
- Similarly unemployment rate for females increased from *70* per thousand persons or *7* per cent in *1999-2000 to 87* per thousand persons or *8.7* per cent in *2004-05* in rural areas and from *94* per thousand persons or *9.4* per cent to *116* per thousand persons or 11.6 per cent in urban areas. (Table 13).
- Furthermore, unemployment rates on the basis of current daily status were much higher than those on the basis of usual status *and current weekly status*.
- Urban unemployment rates (CDS) were higher than rural unemployment rates for both males and females in *1990-2000*. However, in *2004-05*, rural unemployment rates for males were higher than urban employment rates.
- *According to the usual status, about 56 per cent of rural males and 33 per cent of the females belonged to the labour force. The corresponding proportions in the urban areas were 57 per cent and 18 per cent respectively.*
- *About 42 per cent of the population in the country was usually employed. The proportion was 44 per cent in the rural and 37 per cent in the urban areas.*
- *The daily status (employment) rates were slightly lower than the current weekly status rates, which in turn, were slightly lower than usual status rates.*

- *The unemployment rate according to the usual status in the rural areas was 17 and in the urban area 45. The unemployment rates for females are found to be higher than for males and highest among urban females.*
- *In both the rural and urban areas, unemployment rate among the educated was higher than among the uneducated.*

Table 13: Unemployment rates for 55th round (1999-2000) and 61st round (2004-05) of the NSSO

(all India)
(in per cent)

	Rural					
		Males			Females	
Round	**Usual**	**CWS**	**CDS**	**Usual**	**CWS**	**CDS**
55th (1999-2000)	2.1	3.9	7.2	1.5	3.7	7.0
61st (2004-05)	2.1	3.8	8.0	3.1	4.2	8.7
	Urban					
		Males			**Females**	
Round	**Usual**	**CWS**	**CDS**	**Usual**	**CWS**	**CDS**
55th (1999-2000)	4.8	5.6	7.3	7.1	7.3	9.4
61st (2004-05)	4.4	5.2	7.5	9.1	9.0	11.6

The Approach Paper to the Mid-Term Appraisal (MTA) of the Tenth Plan, has repeated that employment growth should exceed growth of labour force to reduce the backlog of unemployment. Employment strategies advocated in the MTA include :

- Special emphasis to promote public investment in rural areas for absorbing unemployed labour force for asset creation.
- Identification of reforms in the financial sector to achieve investment targets in the small and medium enterprises (SME) sector.
- Large-Scale employment creation in the construction sector, especially for the unskilled and semi-skilled.
- Necessary support to services sectors to fulfil their true growth and employment potentials and greater focus on agro-processing and rural services.

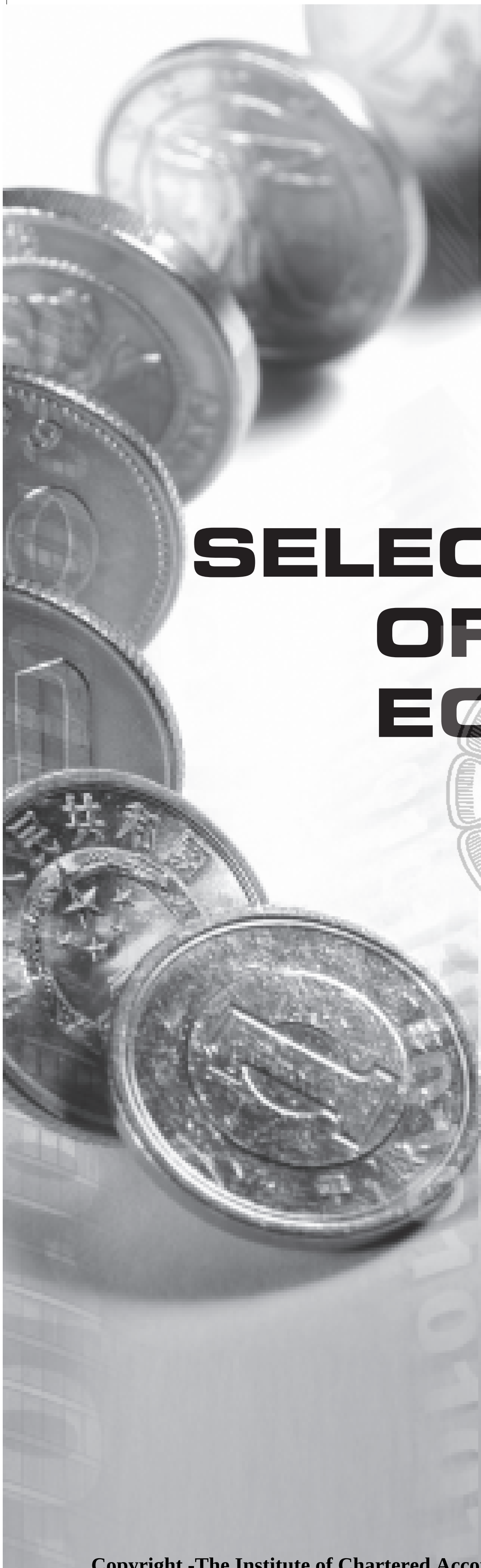
The Approach paper to the Eleventh Plan targets generation of additional employment opportunities in services and manufacturing, in particular, labour intensive manufacturing sectors such as food *processing, leather products, footwear and textiles and in services, sectors such as tourism and construction and village and small scale enterprises.*

Demographic Dividend

In India, 63 per cent population is in the working age group (15-64 years) and it is projected that in 2026 this will increase to 68.4 per cent. Such a big labour force, if properly utilised can yield high production and growth for the economy. This has come to be known as "demographic dividend". For actually tapping this dividend, the Eleventh plan relies upon not only ensuring proper health care but also a major emphasis on skill development and encouragement of labour intensive industries. The projected decline in the dependency ratio (ratio of dependents to working age population) from 0.8 in 1991 to 0.73 in 2001 is expected to further decline sharply to 0.59 in 2011. This is in contrast with the demographic trend in the industrialised countries and also in China, where dependency ratio is rising. Low dependency ratio gives India a comparative cost advantage and a progressively lower dependency ratio will result in improving our cost competitiveness.

SUMMARY

A person who is not gainfully employed is called unemployed. In India, the problem of unemployment has become very serious as around 9 per cent of the labour force is unemployed. Not only there is open unemployment, disguised unemployment is also wide spread. If we consider the nature of unemployment in India, we find that here most of the unemployment is structural in nature. In urban areas, unemployment is mainly industrial and educational in nature. In rural areas, it is seasonal and disguised in nature. The various causes responsible for high incidence of unemployment in India are growing population, inappropriate technology, faulty education system and failure of growth process in generating appropriate and adequate jobs.



CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 4

Infrastructural Challenges

Learning Objectives

At the end of this unit, you will be able to:

- understand how infrastructure plays an important role in the economic development of an economy.
- know the various important infrastructural services.
- understand various sources of energy.
- understand the various problems related to energy.
- know how various means of transportation and communication in India have developed over the years.
- understand how means of transportation and communication provide an important link between production, distribution and ultimate consumers.
- understand how over the years medical services have improved but still India's overall health is low.
- understand education system in India and the problems from which it suffers.

Infrastructure plays an important role in the economic development of an economy. It can quicken or impede the development of an economy. In this section, we will discuss five important infrastructural services viz. energy, transport, communication, education and health.

4.0 ENERGY

Energy is an important input for most of the production processes and consumption activities. It plays a crucial role in the economic development. Economic growth and demand for energy are positively co-related. A study shows a 3 per cent rise in industrial production in the world is accompanied by a 2 per cent increase in energy consumption. A similar relation is also observed in India.

India is both a major energy producer and consumer. India currently ranks as the world's seventh largest energy producer, accounting for about 2.49 per cent of the world's total energy production. It is also the world's fifth largest energy consumer, accounting for about 3.45 per cent of the world's total energy consumption. However, it is noteworthy that India's per capita energy consumption is one of the lowest in the world.

In India, around 22 per cent of the population is below the poverty line and nearly 50 per cent of the population does not have the purchasing power to enter the market for commercial energy. This part of the population living mostly in rural areas depends upon non-commercial traditional sources of energy such as firewood, dung cakes and agricultural wastes. At present, nearly 27 per cent of the energy consumed is obtained from non-commercial sources or traditional sources. The rest is commercial energy and is obtained from oil and gas, coal, hydro-electricity and nuclear power. Production of nuclear power has started, but it is not much.

There is a distinction between primary energy resources and final energy resources. When coal is consumed for generating electricity and electricity is consumed by industry, we call coal as primary energy resource and electricity as the final one. Coal, petroleum products and natural gas are both primary resources and final resources as they are consumed directly as well as indirectly, while electricity is, by and large, the only final energy resource.

Major users of electricity are industry (38 per cent), domestic (24 per cent), agriculture (22 per cent) and commercial establishment (9 per cent). We shall concentrate on electricity as it is the main mover of manufacturing industry.

4.0.0 *Electricity:* Electricity or power is the most important source of commercial energy. Over the planning era, the production and consumption of electricity has increased tremendously. Our total installed capacity of generating power was around 2300 Mega Watt (MW) in 1950-51. It increased to *74,700* MW in 1990-91, *117800* MW in *2000-01* and further to 175000 MW in 2008-09. Thus, over a period of 58 years, there has been 75 times increase in the installed capacity. We are roughly adding 4000-5000 MW every year.

4.0.1 *Sources of Electricity*: There are 5 major sources of electricity (1) water (2) coal (3) oil (4) gas and (5) radio active elements like uranium, thorium and plutonium. Electricity generated from water is known as hydro-electricity. Electricity generated from coal, oil and gas is called thermal electricity and electricity generated from radio-active elements is called atomic energy.

Of the present capacity, *62* per cent is in the thermal and non-conventional energy sources other than wind *21* per cent in the hydel and wind *2.5* per cent is in the nuclear and rest is in the other sectors. In terms of generation of power, thermal plus non conventional energy source other than wind is contributing *73* per cent, hydel and wind around *13.5* per cent and nuclear 2.0 per cent and others are contributing 11.5 per cent.

The central government, state governments and private sector all work together in the generation of power. The Central Government operates through National Thermal Power Corporation (NTPC), National Hydroelectric Power Corporation (NHPC) and Nuclear Power Corporation of India Limited (NPCIL). State governments have their State Electricity Boards (SEBs). There also exist Central Electricity Authority and Central Electric Regulatory Commission.

4.0.2 ***Difficulties and Problems relating to energy***

(1) ***Demand and Supply imbalances in commercial fuels :*** The demand for energy, particularly for commercial energy, has been growing rapidly with the growth of the economy, change in the demographic structure, rising urbanisation, social-economic development and desire for attaining and sustaining self reliance in the economy. The supply has not increased concurrently.

Table 14 gives the trend of primary commercial energy demand and supply between 1960-61 to 2006-07 and projected requirement for 2011-12.

Table 14

Trends in Demand and Supply of Primary Energy

(All in Mtoe)

	1960-61	1970-71	1980-81	1990-91	2000-01	2006-07	2011-12*
Domestic production of commercial energy	36.78	47.67	75.19	150.01	207.08	259.56	435
Net imports	6.04	12.66	24.63	31.07	89.03	131.97	111
Total commercial energy	42.82	60.33	99.82	181.08	296.11	391.53	546
Non-commercial energy	74.38	86.72	108.48	122.07	136.64	147.56	169
Total primary energy demand	117.20	147.05	208.30	303.15	432.75	539.09	715

Mtoe = *million tonne of oil equivalent*
Source: *Planning Commission, Eleventh Plan – Vol.3*

We can see from the table that in 2006-07, out of the 539 mtoe of primary energy demand, 391 mtoe demand was for commercial energy and 148 mtoe was for non commercial energy. Out of 391 mtoe demand for commercial energy, 259 mtoe was domestically produced and 132 mtoe was imported. Non commercial energy (148 mtoe) was produced and consumed domestically. Thus, we notice that one third of the demand for commercial energy was met through imports.

India needs to eliminate shortage of energy and enhance the availability of commercial energy resources if it has to sustain the projected 9 per cent growth in the Eleventh Plan. It is projected that by the end of Eleventh plan, net imports would reduce to 20 per cent of the total demand for commercial energy.

(2) ***Oil prices and inflationary pressure :*** Since 1973, oil prices have been rising in the international market. During *1973-2008*, the Organisation of Petroleum Exporting Countries (OPEC) has increased the prices many folds. This has contributed to the inflationary pressure in India. Mineral oil is presently the major source of energy for transport, industry and agriculture. It is also used as household fuel. Therefore, rising oil prices has led to rising general prices in India.

(3) ***Growing oil imports bill :*** Since 1973, India's oil imports bill has increased substantially. In 1973-74 India's oil import bill was Rs. 1100 crore. It in*creased to Rs. 10,816 crore in 1990-91 and to a record level of Rs. 3,20,000 crore in* 2007-08. Petroleum, oil and lubricants (POL) constitute around *one third* of our import bill. The oil import bill is also responsible to a great extent for the existing large balance of trade gap.

(4) ***Transmission and distribution losses :*** One of the major problems faced by the power companies are transmission and distribution (T&D) losses. The T&D losses are very high in many of the SEB systems. These losses include substantial amount of theft of power. National average of this loss is around 23 per cent while in many states it is more.

(5) ***Sick SEBs :*** Many SEBs have become financially sick. A large portion of these losses is accounted for by almost free supply of power to agriculture. Besides, operational inefficiencies, high cost structure, lower power tariffs and large overdues have made SEBs sick.

(6) ***Operational inefficiency :*** Most of the thermal power plants are operating inefficiently. Plant load factor (PLF) measures the operational efficiency of a thermal plant. If total generating capacity is say 600 billion kilo-watt hours (kwh) and we are producing only 300 billion kwh, plant load factor here is 50. Plant load factor varies across the regions. It is lowest in North Eastern region (*47.5* per cent in *2008-09*) and highest in *Southern* region (*83* per cent in 2008-09). If we consider SEBs, central sector and private sector, we find that PLF was 71 per cent in SEBs, 84 per cent in central sector and 91 per cent in the private sector in 2008-09.

(7) ***Inadequate electrification :*** Till date, nearly 19 per cent of villages are not electrified. In many villages, there are a very few houses which are lighted. This is sad considering the fact that more than 60 years have passed since we got Independence and still our rural areas are without electricity.

4.0.3 *Recent steps taken to meet the above problem*

(1) In order to improve production of power, Electricity Act was passed in 2003 and Electricity Amendment Bills 2005 was passed in 2005. The focus is on improved investment in power

sector and fixing of power tariffs on the basis of competition, efficiency, economical use of resources, commercial principles and consumers' interests.

Certain provisions of the Electricity Act 2003 were amended in 2007 by passing of Electricity (Amendment Act) 2007.

(2) To improve generation of power, Ministry of Power has launched the 'Partnership in Excellence' programme. Under the programme, 26 thermal stations with PLF less than 60 per cent have been identified. Steps will be taken to improve their efficiency.

(3) Steps are being taken to improve and add electricity-generating capacity of the plants.

(4) Government is encouraging the use of hydel and wind energy sources which do not rely on fossil fuels and avoid carbon emissions.

(5) Steps have been taken to turn around SEBs. These include, rationalization of tariff structure particularly the prices charged by the SEBs from various categories of consumers, monitoring of cost structure, optimum utilization of existing capacity.

(6) The greatest weakness in the power sector is on the distribution side. Aggregate Technical and Commercial (AT&T) losses of most State Power Utilities (SPUs) remain high. In order to redress the problem the Accelerated Power Development and Reforms Programme (APDRP) was initiated in 2002-03. Although at the national level the AT&T losses have not come down much, the losses have come down in towns where APDRP has been implemented.

In order to reduce transmission losses, distribution reforms have been carried out. In 2002, power sector was privatized in Delhi. The experience of privatization in Delhi has been encouraging. For example, there the quality of power has improved, load shedding has come down and the average response time for attending breakdowns has also come down.

(7) Government is encouraging private sector investment in power and for this it is finalizing guidelines.

The key initiatives in this regard include permitting private sector to set up coal, gas, or liquid based projects of any size, allowing gradual entry in distribution, encouraging foreign equity and participation and permitting FDI in varying extent in different sub sectors of power and giving tax incentives etc.

(8) An All India Power Grid, also called National Grid is being developed by the year 2012. An integrated power transmission grid helps to even out supply-demand mismatches. The existing inter-regional transmission capacity is planned to increase from its present 20750 MW to about 37,700 MW by 2012.

(9) Nine sites were identified for the development of ultra-Mega Power Plants with capacity of 4000 MW each.

(10) Steps are being taken to provide access to electricity to all areas including villages and hamlets. For this, 'Rajiv Gandhi Grameen Vidhyutikaran' programme was started in 2005.

The Scheme provides for free electricity connections to below poverty line (BPL) households. Rural Electrification Corporations is the nodal agency for this. Under the scheme, nearly

60,000 villages have been electrified and connections to 54 lakh BPL households have been released.

Besides the above, certain Steps have been taken to encourage conservation of energy. These include, giving energy conservation awards to deserving industries, encouraging use of Compact Fluorescent Lamps (CFLs) and promoting energy efficient equipments etc. The Bureau of Energy Efficiency (BEE) has taken initiatives to promote energy efficiency.

4.1 TRANSPORTATION

Today, along with energy, transport is the basic infrastructural requirement for industrialization. Transport provides a useful link between production centers, distribution areas and ultimate consumers. Important means of transport are railways, roads, water transport and air transport.

4.1.0 ***Railways :*** Indian Railways, Asia's largest and world's third largest rail network under a single management, has been contributing to the industrial and economic landscape for over 150 years. There are two main segments of railways - freight and passenger. The freight segment accounts for about 70 per cent of revenues and passengers thirty per cent of revenues. The total route length of railways is 63.5 thousand kilometers. Out of which *17.9* thousand kilometers is electrified. During *2008-09* it carried more than 6900 million of passengers and *832* million tonnes of freight traffic. Railways however, faces the following problems:

(1) The existing technology of both electric and diesel locomotive is very old.

(2) The railway network is smaller and inadequate vis-à-vis the requirements of the economy.

(3) The railways is facing the problem of financial crunch. The conventional methods of increasing the net revenue, like raising of tariffs and expenditure control are inadequate for generating the levels of investment required.

(4) Because of social responsibilities, railways is forced to operate a number of unremunerative lines and suffer heavy losses. Often, essential goods like foodgrains, fruits and vegetables have to be carried at a loss.

(5) Railways also suffers from over crowding and poor passenger services.

In order to meet the above challenges, railways is trying to improve resource management. Rational price policy, increased wagon load, faster turnaround time, Public-Private Partnerships (PPPs), double line freight corridor for efficient freight movements are some of the steps taken in recent years to improve railway's performance.

4.1.1 ***Road:*** The Indian road network is the *one of the* largest *networks* in the world. At the beginning of the first plan, India had 1,57,000 kms of surfaced roads and about 2,43,000 kms of unsurfaced road. In 2002-2003, the total road length had increased to 24,83,300 kms. Out of which 14,20,500 kms is surfaced. Today, India has a network of 3.34 million kilometre. The National Highways which comprise only about 2 per cent of total length of roads now encompass a road length of *66,590* kms. and carry more than 40 per cent of the total road traffic. The rural roads network connects around 65 per cent all weather roads. *Roads occupy a crucial position in the transportation matrix of India as they carry nearly 61 per cent of freight and 87 per cent of passenger traffic.*

Problems of road transport : Following problems are faced in the case of road transport:

(1) The road length is inadequate considering the size of the country.

(2) A number of areas, particularly interior areas and hilly tracts remain to be linked with roads.

(3) Large tracts of rural roads are mud roads which cannot be used for plying heavy traffic.

(4) A number of urban roads are also poorly maintained. This is due to constraints of financial resources, organizational inadequacies, procedural delays, shortage of essential materials etc.

(5) Most of the State Road Transport Corporations are running on heavy losses. This is because of rising cost of operations, inefficiency in operations and corruption.

In order to overcome the above problems a number of steps have been taken. These include, undertaking the National Highways Development Project (NHDP) which involves developing Golden Quadrilateral (Mumbai, Delhi, Chennai and Kolkata), North-South and East-West corridors, Port connectivity and other projects, PPP in roads developments and rationalisation of taxes etc.

4.1.2 ***Water transport***: Water transport can be divided into inland water transport and shipping. Shipping can again be divided into coastal shipping and overseas shipping.

India has about 14500 km of navigable waterways which comprise rivers, canals, backwaters creeks etc. About 45 million tonnes of cargo is being annually moved by inland water transport. Over the years, the importance of this mode of transport has declined considerably due to expansion of rail and road transport and navgational inadequacies. The government approved the Inland Water Transport Policy which includes a number of incentives to encourage private sector participation in inland water transport.

India has a long coastline of 7,517 kms, 12 major ports and 200 minor ports and a vast hinterland. Coastal shipping is very energy efficient and cheapest mode of transport for carrying bulk goods (like iron and steel, iron-ore, coal, timber etc.) over long distances. However, there had been a sharp decline in coastal shipping operations during 1960s and 1970s. The Gross Tonnage (GT) fell from 0.31 million in 1961 to 0.25 million in 1980. However, there was an improvement in the coastal shipping in 2001 as coastal tonnage rose to 0.70 million GT. There was further improvement in the ensuing year as coastal traffic increased to 116 million tonnes in 2002-03. It is estimated that by the end of Eleventh Plan this will further increase to 220 million tonnes. The main factors for poor growth of coastal shipping have been (1) high transportation costs (2) port delays (3) over-aged vessels (4) lack of mechanical handling facilities (5) imbalance in coastal traffic movement and (6) slow handling of the cargo at ports. These inflict heavy losses on shipping companies.

Almost 95 per cent of India's global merchandise trade is carried through the sea route. India's overseas shipping has improved over the planning period. The country has the largest merchant and shipping fleet among developing countries and ranks 20th in the world in shipping tonnages. As compared to 1.92 million Gross Tonnage (GT) at the time of Independence shipping tonnage was 8.6 million GT at the end of March 2007. The fleet at the end of March 2007 was 787 vessels (1.19 per cent of world fleet).

Since ports are very important for coastal and overseas shipping, special efforts have been made in the Five Years Plans for the development and modernization of existing ports and establishment of new ports. The total traffic carried by both the major and minor ports was 723 million tonnes during *2007-08*. The 12 major ports carry about three-fourth of the total traffic, with Vishakhapatnam as the top traffic handler in each of the last *seven* years.

Problems faced by Indian ports : The main problem is low productivity. Major factors contributing to this are:

- Operational constraints such as frequent breakdown of cargo handling equipment due to obsolescence.
- Inadequate dredging and container handling facilities.
- Inefficient and non optimal deployment of port equipment.
- Lack of proper coordination in the entire chain.
- Indian containers are costlier than other ports in the region for handling containers. The additional cost burden due to use of second and third generation vessels has been estimated at U.S. $ 250 million a year. Container delays at Indian ports cost U. S. $ 70 million a year.

4.1.3 ***Air transport:*** Air transports is the preferred mode of transport especially for long distance travel, business travel, accessing difficult terrains and for transporting high value and perishable commodities. In the civil aviation sector, there are three parts – operational, infrastructural and developmental. The first is the operational. There are 11 scheduled passenger operators and one cargo operator in the country with the combined fleet size of 407 aircrafts. There are also 99 non scheduled airlines operators who have 241 aircraft in the inventory. Indian Airlines and Air India were amalgamated with National Aviation Company Ltd. The brand name 'Air India" was however retained. The merged entity along with its subsidiary companies, with more than 140 aircraft, would enter the list of top 30 airlines globally in terms of fleet size.

The private sector is now playing a crucial role in the development of both airline and airport sector. Its market share in the domestic traffic during 2006 reached 78.5 per cent from near 50 per cent share earlier. Jet airlines has emerged as the market leader with a share of 31.2 per cent, followed by Indian Airlines (21.5) per cent, Air Deccan (18.3 per cent), Air Sahara (8.8 per cent), Kingfisher (8.7 per cent).

Regarding infrastructural facilities, Airport Authority of India manages 92 airports, including five international airports at Delhi, Mumbai, Kolkata, Chennai and Thiruvananthapuram and 28 civil enclaves at the defense airports. Green field airports of international standards are also constructed at Hyderabad, Bangalore and Goa. Proposals to set up green field airports with private sector participation in Navi Mumbai, Kerala, Sikkim are also in the pipelines. An international green field airport is already operational in Kochi.

Regarding regulatory cum developmental aspect, the Department of Civil Aviation, Government of India, is responsible for it. International services are governed by bilateral agreements. Due to the monopoly nature of the airports and their economic importance, efforts are being made to set up an Independent Airport Economic Regulator for tariff setting and monitoring of performance against standards.

Non-availability of seats has been one of the major constraints faced by international passengers. For this, the airlines are trying to acquire more aircrafts. *Government has adopted an overall liberal approach in the matter of grant of traffic rights under bilateral agreements with various foreign countries.* Air India express has started operations on low cost pattern effective April 2005. These initiatives have had a marked impact on airline traffic. Domestic and international traffic grew by *21.8* per cent and *13.6* per cent respectively in the tenth plan. It is estimated that international and domestic passengers would increase by 16 and 20 percent respectively in the 11th plan. International and domestic cargo traffic is expected to grow at the rate 12 and 10 percent respectively in the Eleventh Plan. Domestic and international cargo recorded a growth of *12.6* per cent and *12.8* per cent respectively during the Tenth Plan.

Recent important developments in the airline and airport sector included: (i) modernization and restructuring of Delhi and Mumbai airports launched through joint venture companies; (ii) development of Greenfield air-ports at Bangalore and Hyderabad on a Build– Own–Operate–Transfer basis with PPP; (iii) approval of modernization of 35 non-metro airports and 13 other airports to world-class standards in phases; (iv) liberalization of FDI limit upto 100% through automatic route for setting up Greenfield airports; (v) acquisition of modern and technologically advanced aircraft for Air India (AI) Ltd, Air India Charters Ltd (AICL), and Indian Airlines Ltd; (vi) liberalization of bilateral air services agreement in line with the contemporary developments in international civil aviation sector; (vii) adoption of a limited Open Sky Policy in international travel to meet the traffic demand during peak season; and (viii) adoption of trade facilitation measures in custom procedures to facilitate speedy clearance of air cargo.

4.2 COMMUNICATION

Communication means transmission of information. For the development of industries, commerce and trade in the country, communication is very necessary. The important means of communications are the postal services, telephone services, tele printers, radio and television etc. Telephone, tele-fax and e-mail have been gradually evolving and telex and telegraph are getting out of fashion.

4.2.0 ***Postal services***: India's postal system dates back to 1837 and today our postal network is the largest *network* in the world. Today, we have more than 1.55 lakh post offices and out of which around 1.4 lakh are in the rural areas. On an average, one post office serves *7174* persons and *21.12* sq. km area. Postal services suffer from many weaknesses such as inadequate number of post offices, use of outdated techniques, delays in reaching of posted material etc. A number of steps have been taken for resolving these problems. Such as speed post, business post, express parcel post, media post, speed post passport etc. services have been introduced. With a view to improve the speed and volume of money order transmission, 140 VSATs (Very Small Aperture Terminals) have been set up. They handle more than 1 million money orders a month. To provide better services, mechanization and computerization of postal operations is being progressively introduced. Presently more than 9600 post offices are computerized. Automatic mail processing centers (AMPC) have been set up at Mumbai and Chennai for faster processing of mails. Two more AMPCs are being set up in Kolkata and Delhi. E-post services were started in 2001 in some states. Under e-bill post, customers are able to pay multiple utility bills at post office counters. They are now being upgraded for multiple messaging to make them useful for corporate houses. Pick up of mails from the residence of the customers has been started all over the country. This is a major initiative to provide user-friendly services to its vast customer base. Direct post, which comprises of un-addressed postal articles like promotional items, has been introduced to provide the facility of direct advertising for increasing commercial activity in the country. 'Logistics Posts', 'Retail Post Services' are other new services which are now being provided. Post offices are also providing a number of financial products such as saving bank and saving certificate, postal life insurance, non life insurance products, mutual funds etc.

Besides the above, the Department of Posts has launched a pilot project "Project Arrow" with the aim of providing fast and reliable postal services to the consumers. In addition to the above, 161 mail business centres with the state of the art technology and modern mailing tools have been designated for collection, processing and delivery of bulk mail.

4.2.1 ***Telecommunications:*** Communications all over the world has progressed rapidly and the most important factor accounting for increased communication has been the development of telecommunications which include (i) the telephone service, and (ii) the telex service. At the time of Independence, India had a total of only 321 telephone exchanges with about 8200 working connections. There were only 338 long distance public call offices and 3324 telegraph offices. The growth of telecommunications has gained momentum after Independences and by March *2009* India had *414* million connections (basic and mode). With the present growth, the number of telephones is expected to reach 600 million by the end of 2012. As on March 2007, more than *5.6* lakh villages were connected using a village public telephone (VPT). Thus, 90 per cent of villages in India have been covered by the VPTs. At present, in the rural areas more than 2 lakh public call offices (PCOs) and 113 million phones have been provided.

Although India's telephone network is the third largest in the world, the tele density continues to be low at about 35.65 per cent. While tele density in rural areas is 13.81 per cent, the urban tele density shot up to 83.66 per cent in March, 2009.

A type of revolution has taken place in the field of telecommunications in recent years. A number of value-added services like radio paging services, cellular mobile telephone service, electronic mail, public mobile radio trunked service, voice mail, video tax, video conferencing etc. have been started. Upto March 09, there were about *376* million subscribers of cellular mobile telephone services. The two PSUs in the telecom sector - Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) have been losing their market shares in fixed telephony. From 98.65 per cent share in 2001-02, their combined share declined to 85.31 per cent in December 2005. However, their share in mobile telephony has improved from 3.98 to 21.11 per cent over the same period. Apart from this, there has been significant growth in the internet connections and broadband subscribers. The internet connections increased from 0.01 million in 1995 to around *3*5 million in March, 2009 and broadband subscribers have increased from 0.49 lakh in December 2004 to more than 6 million in March 2009. Regulatory framework and functions are carried out by Telecom Regulatory Authority of India (TRAI) and now the National Internet Exchange of India (NIXI) has been set up to ensure that internet traffic originated and destined for India, is routed within India.

4.3 HEALTH

For good health, two things are essential: (1) balanced and nutritional diet and (2) medical care.

The general health standard in India is quite low. This is quite inevitable as nearly one fourth of the population lives below the poverty line. These people do not have nutritional diet, adequate medical care and hygienic conditions. As a result, the overall health conditions are poor in India. It is not that nothing has been done on the health front but they are far from satisfactory. The following table shows trends in health care in India since Independence.

Table 15 : Trends in Health Care

	1951	*1981*	*2008*
Health centers	725	57,353	*1,71,687*
Dispensaries + Hospitals	9,209	23,555	33,855
Beds	1,17,198	5,69,495	11,75,374
Nursing personnel	18,054	1,43,887	*15,72,363*
Doctors (Modern)	61,800	2,68,700	around 7 lakh

Under the various plans, health development programmes have been integrated with family welfare and nutritional programmes for vulnerable sections – children, pregnant women and nursing women. These programmes focussed on increasing health services in rural areas, intensification of the control of communicable diseases like small pox, malaria and leprosy, improvement in education and training of health personnel etc. Since sixth plan there has been a change in the whole approach towards health services. Under the new approach, the focus is not on providing hospitals but on providing better health and medical care services to the poor people. A community based programme on health care and medical services in rural areas was launched. Apart from developing rural health services, the control of communicable diseases is now being given the highest priority. Since diseases like, T.B., malaria, gastrointestinal infections are related with unhygienic sanitation, efforts have been intensified in providing hygienic conditions and opening new hospitals and strengthening existing hospitals especially in rural areas. As a result of these efforts, there has been a fall in the incidence of certain diseases like T.B, leprosy and polio. But a rise in the incidence of certain diseases like AIDS, blindness, cancer etc. has also been noticed. These require immediate attention, care and action. There are certain weaknesses of Indian health care which need immediate attention. These relate to:

1. Unequal distribution of existing health institutions and manpower.
2. Mismatch between personnel and infrastructure.
3. Lack of an appropriate referral system.

4.4 EDUCATION

Education plays an important role in the overall development of a human being and a society.

Therefore, stress on imparting education has been given in our Constitution which says education should be free for children below 14 years of age. Under the various plans, education facilities have been expanded at all levels in India and as a result, not only the literacy rate has risen but the percentage of children availing school education has also increased. *India, now, has the second largest education system in the world. Eighty four per cent of rural habitation in India now have a primary school located with in a distance of 1 kilometre.* The National Policy on Education (NPE) was made in 1986 and further modified in 1992. It emphasizes 3 aspects in respect of elementary education:

- universal access and enrolment;
- universal retention of children up to 14 years of age; and
- a substantial improvement in the quality of education.

NPE had set a goal of expenditure on education at 6 per cent of the GDP. As against this target, the actual expenditure of central and state governments was 3.49 percent of GDP in 2004-05.

As a result of the efforts undertaken, Gross Enrolment Ratio (GER), which shows the proportion of children in the 6-14 years age group actually enroled in elementary schools, has increased progressively from 32.1 in 1950-51 to *96.9* in *2006-07*. With the rate of increase in GER of girls higher than that of boys, the general gap in enrolment is declining. Drop-out rate at the primary has declined from 39 per cent in 2001-02 to 29 in 2004-05. The main vehicle for providing elementary education to all children is the ongoing comprehensive programme called Sarva Shiksha Abhiyan (SSA) launched in 2001-02. It aims at having all children in school by 2005 and universal retention by 2010. National Programme for Education of Girls at Elementary Level (NPEGEL) is an important component of SSA. This programme concentrates on education of girl child. Another important component of SSA is the Education Guarantee Scheme and Alternative and Innovative Education (EGS + AIE). This is specially designed to provide access to elementary education to children in school-less habitations and out of school children in 2004-05. Apart from the above, Mid-day meal scheme, Kasturba Gandhi Balika Vidyalaya (KGBV), Parambhik Shiksha Kosh (PSK) are other schemes for encouraging people for elementary education.

The achievements of SSA till December 2008 are opening of around 277000 new schools, construction of more than 225000 school buildings, construction of more than 900000 additional classrooms, supply of free text books to 8.40 crore children and appointment of 9.66 lakh teachers.

Secondary education prepares students in the age group of 14-18 years for entry into higher education and employment. There has been an impressive growth in the area of higher education with an increase in *the number of secondary and higher education school from 7416 in 1950-51 to more than 1,68,900 in 2006-07. The corresponding increase in* total student enrolment *has been* from *1.5* million in *1950-51* to *39.44* million in *2006-07*. Annual enrolment of women students rose from 2.45 million in 1997-98 to 4.04 million in 2004-05 constituting *40.4* per cent of the total annual enrolment.

University and higher education is also very important. However, it is available to a small percentage of population in the relevant age group. Moreover, it suffers from several weaknesses, such as increasing number of substandard institution, falling academic standards, outdated curriculum and lack of adequate support for research.

There has been a significant growth in higher education during the academic year 2006-07. Enrolment in various courses at higher level in 2006-07 was 11.61 million as compared to 11.34 million in the previous year. Out of these women students constituted 40.55 percent.

Technical education including management education has expanded at a spectacular rate since Independence. At present there are more than 1200 recognised technical education institutions at the first degree level and 1215 polytechnics at the diploma level with more than 2 lakh students each. Number of institutions offering post-graduate courses is about 150 with an annual capacity of 10,000 students. There are seven national institutions on technology known as Indian Institute of Technology. These provide courses in engineering and technology. Besides these, *there are 20 National Institute of Technology (NIT) consisting of 17 erstwhile Regional Engineering colleges and 3 other engineering colleges taken over by the Central Government* and a number of other centers for specialised courses such as architecture, mining and metallurgy, industrial engineering and forge and foundry. *These include Indian Institute of Science, Indian Institute of Science Education and Research (IISERs), National Institute of Industrial Engineering, Indian Institute of Foreign Trade (IIFT), National Institute of Foundry and Forge Technology, Indian School of Mines, School of Planning and Architecture and many more.* There are six Indian Institutes of Management (IIMs) which are centers of excellence in management education. Apart from these, there are other private and government institutes which provide management education. *Not only this, there are quite a number of medical colleges imparting education in the area of medicines. All India Institute of Medical Sciences, Delhi University College of Medical Sciences, Post Graduate Institute of Medical Education & Research, Maharashtra University of Health Science, Sanjay Gandhi Postgraduate Institute of Medical Science are a few of them.*

Recent expansion of higher education institutions include the following: Opening of 6 new IITs, passing of Ordinance for establishing 15 Central Universities, opening of new IIMs, setting up of two new IISERs, setting up of two new Schools of Planning and establishing new polytechniques etc.

For adult education, the National Literacy Mission (NLM) was launched in 1998 as a Technology Mission. It aimed at imparting functional literacy to non-literates in the country in the age group of 15-35 in a time-bound manner. Its objective is to attain a sustainable threshold literacy rate of 75 per cent by 2007. The Total Literacy Campaign (TLC) has been the principal strategy of NLM. NLM has accorded priority for the promotion of female literacy. *The scheme of continuing education is now the flagship programme of the NLM. As more and more neo-literates emerge out of the literacy campaign, the thrust is on providing continuing and life long learning to these people. For this purpose, a number of Continuing Education Centres (CECs) are being opened up.*

4.4.0 *Problems of India's Education system*

The education system in India suffers from the following problems:

1. Unplanned expansion of higher education.

2. Inadequate number of institutions which can impart education through correspondence or in the evening .
3. Low standard of education.
4. Large number of unemployed educated people.
5. Large-scale migration of educated people to the developed western countries.
6. Lack of infrastructure in many rural schools – absence of rooms, blackboard, teachers, water etc.
7. Neglect of primary education.

4.4.1 *Suggestions for improving the education system*

1. Restrictions should be introduced on higher education. Only those who satisfy certain conditions should be admitted to post graduate courses.
2. Education should be made job-oriented.
3. Expansion of education should be carefully planned since it is costly.
4. In rural areas emphasis should be on agriculture and vocational education.
5. Technical education should be properly planned.
6. Efforts should be made to stop brain drain i.e. highly educated people going abroad in search of jobs.
7. The standard of education should be raised.
8. The reasons for high rate of dropout especially among girls should be found and dealt with.

SUMMARY

Important infrastructural services are energy, transport, communication, education and health. Energy is a vital input for most of the productive activities. In India, still half of the population uses non-commercial sources of energy obtained from fuel wood, animal dung, biogas, crop residue etc. Commercial energy is obtained from coal, petroleum, water, sun and wind, etc. Demand and supply gap, operational inefficiencies, growing oil prices, T&D losses etc. are the challenges faced by the economy vis-a-vis energy. Steps taken to meet these challenges include, increasing capacity of plants, carrying out reforms for reducing T&D losses, turning around SEBs, using new sources of power and so on.

Railways, roadways, water ways and airways constitute the transportation system of any economy. Considering the size of India, these facilities are inadequate and need enhancement and improvement.

Communications all over the world have progressed rapidly and the most important factor behind this has been the growth of telecommunication. Radio paging, cellular mobile telephones, electronic mail, voice mail, video-conferencing have revolutionised the world and have replaced old means of communication such as telegram and telex. India along with the other countries has benefited from these progresses but still it has a long way to go.

The general health of Indian people is not satisfactory. There is lack of proper balanced and nutritious diet and medical care. Although over the years many developments have taken place on the health front but considering the size of the population in India these are inadequate both qualitatively and quantitatively.

Education is an important ingredient in the development of an individual and a society. In India, education system suffers from, high percentage of dropouts, inadequate number of educational institutions, lack of infrastructure in many rural schools, outdated co-curriculum and so on. For improving the education system in India it is important that the above problems are addressed adequately.

CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 5

Inflation

Learning Objectives

At the end of this unit, you will be able to:

- ♦ understand the meaning of inflation.
- ♦ know various types of inflation.
- ♦ understand how prices have moved in India.
- ♦ know the general causes behind inflation in India.
- ♦ know the measures taken by the government to control inflation in India.

5.0 MEANING AND TYPES OF INFLATION

Inflation refers to a persistent upward movement in the general price level. It results in a decline of the purchasing power. According to most economists inflation does not occur until price increase averages less than 5% per year for a sustained period. Inflation can broadly be of the following types:

(i) ***Demand-pull inflation :*** In a market there is interaction between the flow of money and flow of goods and services. When more money chases relatively less quantity of goods and services the excess of demand relative to supply pushes up the prices of goods and services. Such inflation, as a result of increased money expenditure, is called demand-pull inflation. In other words, when demand for goods and services is more than their supply, their prices rise. Such price rise is called demand pull inflation.

(ii) ***Cost-push inflation :*** Cost push inflation refers to a situation where prices persistently rise because of growing factor costs. Cost push inflation results when factors of production especially wage earners try to increase their share of the total product by raising their prices. A rise in factor prices leads to a rise in the total cost of production and consequently a rise in the price level. This may result in an inflationary spiral. Inflation once set in motion due to phenomenon of cost push in one industry or sector spreads throughout the economy. For example, due to rise in wages in the steel industry, prices of steel may rise and this will raise the prices of vehicles, machines, etc., using steel as input. The rise in prices of vehicles may in turn raise the cost of transport and manufactured goods. The cost of agriculture may also rise due to high prices of tractors. Ultimately, food and raw material prices will also go up leading to higher cost of living. Higher cost of living will further push wage rates. Cost push inflation is much more difficult to control than demand pull inflation. This is because cost push inflation is not susceptible to direct control. Often the demand pull inflation precedes the cost push inflation. When the former sets in, there is an increasing demand for factors of production; the prices of these also rise, leading to rise in general prices.

(iii) ***Stagflation :*** The combined phenomenon of demand-pull and cost-push inflation is found in many countries, both the developed and the developing. One of these situations is in the form of stagflation under which economic stagnation, in the form of a low rate of growth, combines with the rise in general price level. In the developing countries, this happens when aggregate demand increases at a fast rate due to high public expenditure and expansion of credit money organised labour exerts its influence in raising up wages thus combining cost-push effect with the demand pull inflation.

Such inflationary situations when unchecked by appropriate monetary and fiscal measures, may lead to galloping or hyper-inflation leading to price increase of even 40% to 100% every year.

Stagflation in India has been interpreted to mean that the economy is growing slowly or stagnating (i.e. GNP is either increasing slowly or remaining constant or even declining) and at the same time experiencing a high rate of inflation. In India during 1991, partly as a result of large budget deficits resulting in rapid expansion in money supply and partly due to supply shocks delivered by Gulf war in 1990-91 and sharp increase in the procurement prices of foodgrains the high rate of inflation emerged in the economy. Along with high inflation rate, rate of industrial and economic growth, was very low. Thus, during the period 1991-94 high inflation occurred in India while the economy was stagnating. Therefore, it is correct to say that India was experiencing stagflation during the period.

Deflation: Deflation is a state in which the prices are falling and thus the purchasing power of money is increasing. Deflation is just the opposite of inflation.

5.1 PRICE TRENDS IN INDIA

During the fifties, the average decadal rate of inflation was very low at 1.7 per cent.

During the sixties, the average decadal inflation edged up to 6.4 per cent. The inflationary pressures started mounting from 1962-63, on account of the Chinese war in 1962 and unsatisfactory supply position. The Pakistan war in 1965 and the famine conditions during 1965-67 aggravated the situation further. The maximum inflation at 13.9 per cent was recorded for the year 1966-67.

The average inflation rate during the seventies was still higher at 9 per cent. The decade was the most tumultuous as far as the price situation was concerned as undue hike in oil prices in this decade, once in 1972-73 and again in 1979-80 led to overall rise in prices.

During the eighties, the decadal average inflation moved down somewhat to 8.0 per cent. During the first half of nineties average inflation rate was around 10 per cent The years 1990 and 1991 witnessed a very high inflation rate of more than 12 per cent. The accelerated rise in price reaching double digit during 1990-91 was mainly due to fiscal imbalances leading to higher liquidity growth, Gulf crisis leading to the shortage of petroleum products and consequently pushing general price index, tight position of balance of payments and supply demand imbalances of some essential items. The next three years saw lowering of inflation rate (to around 10 per cent) .

The growth in prices both at the wholesale level and retail level has been particularly low between the period 1996-97 to 2003-04. It has been around 5 per cent per annum during 1996-2001 and around 4 per cent per annum during 2001-04. Contributions to low inflation rates during the second half of the last decade were mainly due to stable prices of manufactured goods and also because of good monsoons resulting in only moderate price rise of primary products. The trend was reversed in 2004-05 with pressure on prices across the group. Erratic and delayed monsoon in 2004-05, hardening of international prices of crude oil, minerals and related products led to high inflation rate in 2004-05. It averaged around 6.5 per cent during this year. Crude oil prices continued rising during 2005-06 but due to monetary and fiscal measures taken by the government the inflation was contained at 4.7 per cent during 2005-06.

The inflation rate in 2006-07 has been on a general upward trend with intermittent decreases. In terms of wholesale Price Index (WPI) , annual point to point inflation was 6.11 per cent on January 20, 2007 compared to 4.24 per cent in the corresponding week of the previous year. However, average inflation for the whole year remained at 5.4 per cent. Shortfall in domestic production vis-a-vis domestic demand, hardening of international prices of primary products like wheat, pulses, edible oils, fruits, vegetables and spices have led to higher inflation during 2006-07. The long term inflation for 2001-06 comes out to be 4.7 per cent per annum.

In 2007-08, the fiscal, monetary and administrative measures undertaken during the year together with improved availability of wheat, pulses and edible oil started working in through in terms of decline in inflation. The average inflation for the whole year (in terms of WPI) comes out to be 4.7 per cent.

The fiscal year 2008-09 had been a very unusual year, marked by extremes in price movements. The year 2008-09 recorded the highest average inflation of the decade with WPI recording a growth of 8.4 per cent. In contrast, annual inflation as on end-March 2009 recorded the lowest rate of 0.8 per cent.

There has been a significant variation in inflation rate in terms of WPI and the Consumer Price Indices (CPIs). Inflation rate as per CPI for rural labour (CPI-RL) was 9.7 per cent and CPI for industrial worker (CPI-IW) was 8 per cent as of end-March 2009. The average inflation on CPI-RL and CPI-IW for the year was 10.2 and 9.1 per cent respectively.

It has been observed that in the first half of the fiscal year 2008-09, the inflationary pressure was on account of the momentum in the international commodity prices and the domestic prices of food items like cereals and pulses. However, the monetary, fiscal and administrative measures helped in containing inflation. Later, the global meltdown in commodity prices particularly in energy, metals and agricultural intermediates across the world led to a corresponding decline in the domestic prices.

5.2 CAUSES OF INFLATION IN INDIA

A general price rise can take place either as a result of rise in aggregate demand or a failure of aggregate supply or both. Increase in public expenditure, deficit financing, and rapid growth of population can be mentioned as demand factors and erratic agricultural growth, agriculture price policy, inadequate rise in industrial production and upward revision of administered prices etc. can be mentioned as supply factors which have led to inflationary price rise in India.

(i) ***Increase in public expenditure :*** Public expenditure has risen from 18.6 per cent of NNP in 1961 to 33.3 per cent in 1980-81 and further to around 35 per cent in 2007-08 (current prices). With a rise in national income and also rapid growth of population an increase in public expenditure is unavoidable. But the spectacular rise in the public expenditure is not justifiable. Approximately 45 per cent of the government expenditure in India is on non-developmental activities. No doubt, defence and maintenance of law and order are essential for the stability of the society. At the same time, it must not be forgotten that due to their unproductive nature, expenditure on these activities results in inflationary price rise. The government expenditure on non-developmental activities, by putting purchasing power into the hand of its employees, creates demand for goods and services, but it does nothing whereby their supply could increase. Under these circumstances the general price level shows an inevitable tendency to rise.

(ii) ***Deficit financing :*** Deficit financing means financing of budget deficits (shortages) by borrowing from the banks or printing of more currency. The Government of India has frequently resorted to deficit financing in order to meet its developmental expenditure. A small dose of deficit financing is helpful in tiding over the gap between public revenue and public expenditure and making available funds for the growth of the economy but a large dose and that too in a period of relatively slow growth turns out to be inflationary. This happens because by financing the deficit the government puts purchasing power in the hands of people but it does nothing for creating real resources for the economy at least in near future. In India from plan to plan, the recourse to deficit financing has been increasing and the budgetary deficit during the Eighth Plan was Rs. 20000 crore but actual deficit was very high at Rs. 29,000 crore. In the Ninth, Tenth and Eleventh Plans, the government decided not to raise the money through deficit financing.

(iii) ***Erratic agricultural growth :*** The Indian agriculture largely depends on monsoons and thus crop failures due to drought have been regular feature of agriculture in this country. In the years of scarcity of foodgrains not only price of food articles increases but the general price level also rises.

(iv) ***Agricultural price policy of the Government*** **:** The government has been pursuing a policy of price support to the agriculturists. For this, it announces the price at which it would be buying agricultural products. This ensures certain minimum price to the farmers. This policy benefited farmers in India but this has been a major contributory factor to the inflationary price rise in the country.

(v) ***Inadequate rise in industrial production*** **:** Performance of the industrial sector, particularly in the period 1965 to 1985, has been rather disappointing. Over the 20 years period, industrial production increased at a modest rate of 4.7% per annum. The performance of essential consumer goods sector which includes industries like oil, food manufacturing, textiles, weaving, apparel and footwear was particularly disappointing. Moreover, in the ten years period from 1991-92 (except for 1995-96), the industrial sector registered slow growth of around 6 per cent per annum. In the wake of a large expansion of the money supply creating big demand for these goods, inadequate increase in their production pushed up their prices.

(vi) ***Upward revision of administered prices :*** There are a number of important commodities for which price level is administered by the government. Many of these commodities are produced in the public sector. The government keeps on raising prices from time to time in order to cover the losses in the public sector which often arise due to inefficiency and unimaginative planning. This policy results in cost push inflation.

(vii) ***Other factors :*** Besides the above factors, the following have also contributed to inflationary trends in price in India: Failure of the government to fully bring within the ambit of taxation the increasing income of the people, large scale tax evasion and avoidance, increasing reliance on indirect taxes, black marketing and hoarding of essential commodities, unused capacity in industries, high capital-output ratio, shortage of essential raw materials, low surplus from public sector undertakings, infrastructural bottleneck and rising prices of imports.

5.3 MEASURES TO CHECK INFLATION

Since inflation is a phenomenon where money income or purchasing power is rising faster than the real goods and services, the measures to check inflation should either be of a check on the increase in money incomes or making available more of real goods and services. The various measures can be studied under three main heads – monetary and fiscal measures, control over investment and other measures.

(i) ***Monetary measures :*** Monetary measures are applied to check the supply of currency and credit. These measures consist of quantitative measures (open market operations, statutory reserve requirements and Bank Rate) and qualitative measures (margin requirements, moral suasion etc.). When the Reserve Bank of India wants to control inflation it uses any one or more of the above measures. Thus, it may sell government securities in the open market. By issuing (i.e. by selling) government securities, the government takes away liquidity (i.e. cash etc.) from the people. This lowers the balances with the banks; which in turn will reduce their capacity to create credit or lend money for investment purposes. This will reduce liquidity in the economy and bring the prices under control. Similarly, by raising Bank Rate or statutory reserve rates the RBI controls liquidity and credit and ultimately prices. The extent to which these will be effective will depend on the intensity of the investment demand. The raising of the statutory reserve ratio is very widely used measure in India but the effect of this measure also depends on the banking habits of the people. However in those countries where banking is not fully spread and all money is not quickly banked, the effect will be much smaller.

There are several selective measures of credit, such as variable interest rates, variable margin requirement, ceiling on certain types of loans, minimum and maximum rates of interest etc. There is need for selective control of credit when the rise in prices is confined to some commodities only e.g. necessities of life.

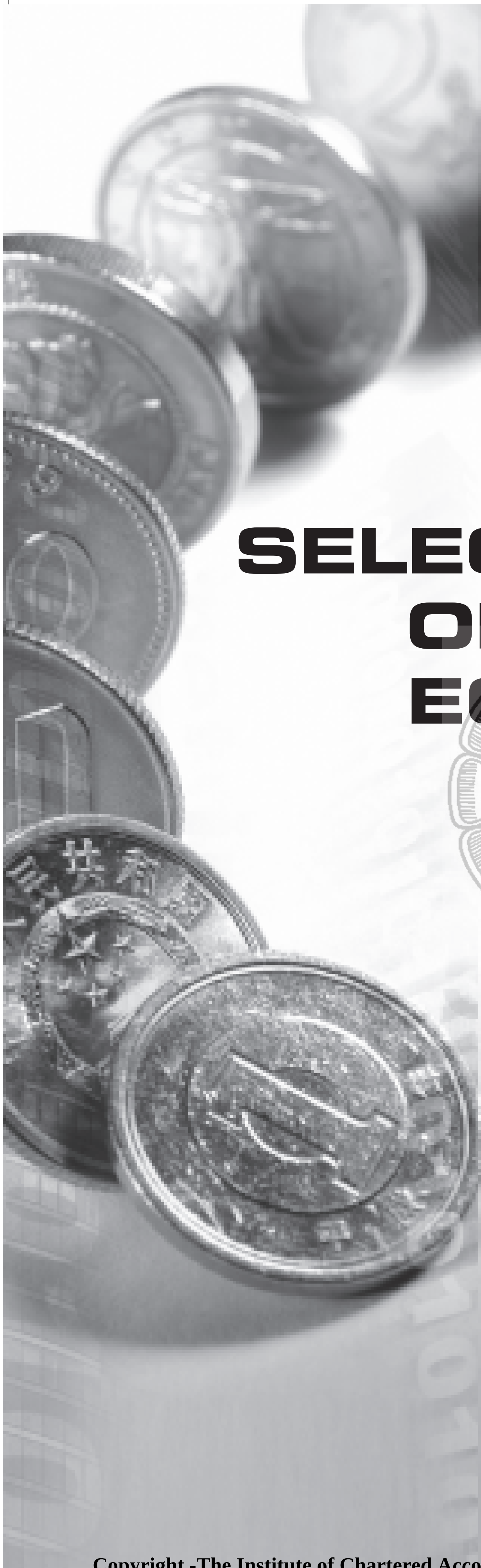
(ii) ***Fiscal measures :*** These are the measures taken by the government with regard to taxation, expenditure and public borrowings. Taxes determine the size of the disposable income in the hands of the public. In the case of inflation, a proper tax policy will be to avoid tax cuts, or to introduce some increase in the existing rates so as to reduce the purchasing power in the hands of the people and thus reduce the pressure of demand on prices. The fiscal tools have been extensively used as tools to control inflation in India. The progressive income tax system, control over public expenditure, introduction of new types of taxes, improving profits of public sector units, etc. are all meant to control inflation in the country.

(iii) ***Control over investment :*** Controlling investments is also considered necessary because, due to the multiplier effect, the initial investment leads to large increase in income and expenditure and the demand for both the consumer and capital goods goes up speedily. Therefore, it is necessary that the resources of the community should be employed for investment which does not have the effect of increasing inflation.

(iv) ***Other measures :*** These measures can be divided broadly into short term and long term measures. Short term measures can be in regard to public distribution of scarce essential commodities through fair price shops. There may also be control over movement of commodities from one state to another. In India whenever shortage of basic goods has been felt, the government has resorted to imports so that inflation may not get triggered. It has also resorted to rationing of essential goods in times of shortages. The long term measures will require accelerating economic growth especially of the wage goods which have a direct bearing on the general price and the cost of living. Some restrictions on present consumption may help in improving saving and investment which may be necessary for accelerating the rate of economic growth in the long run.

SUMMARY

Inflation or persistent upward movement of prices results in a decline in the purchasing power of money. A small dose of inflation at the rate of less than 5 per cent is good for the economy because it strengthens the developmental push of the economy. But inflation at a higher rate has bad economic and social consequences for the economy. Inflation could be caused either because of excess of demand over supply or because of increase in the cost of production or both. Inflation can be checked with the use of monetary measures, fiscal measures and investment control. In India, general causes of inflation have been population explosion, poor performance of agricultural and industrial sectors, high government expenditure, and tendency of the people to emulate people in prosperous countries and so on. Various measures mentioned above have been used to control inflation in India.



CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 6

Budget and Fiscal Deficits in India

Learning Objectives

At the end of this unit, you will be able to:

- ♦ understand the meaning of budget deficit and fiscal deficit.
- ♦ know how budget and fiscal deficits have progressed over the years.

6.0 MEANING OF BUDGET AND FISCAL DEFICITS

The Government of India, every year prepares budget which shows the expected receipts and expenditures of the government in the coming financial year. Receipts of the government come from taxes (both direct and indirect), profits from various financial institutions, government commercial undertakings, interest from loans given to other governments, local bodies, etc. and expenditure of the government are on developmental projects such as construction of roads, railways, production of energy and non-developmental expenditure on a large number of activities such as defence, subsidies, police, law and order, etc. If receipts are equal to expenditure, the budget is said to be balanced one. If receipts are higher than the expenditure, the budget is said to be surplus one and if receipts are lower than the expenditure, the budget is said to be deficit one.

Budget deficit is thus the difference between total receipts and total expenditure (revenue plus capital). If borrowings and other liabilities are added to the budget deficit, we get fiscal deficit. Fiscal deficit, thus measures that part of government expenditure which is financed by borrowings. Consider the following example to understand both the concepts:

Calculation of Budget Deficit and Fiscal Deficit

	1990-91 Rs. (crore)	*2004-05 Rs. (crore)*
1. Revenue Receipts	54,950	3,51,200
2. Capital Receipts of which	39,010	1,63,144
(a) Loan recoveries + other receipts	5,710	12,000
(b) Borrowings & other liabilities	33,300	1,51,144
3. Total Receipts (1+2)	93,960	5,14,344
4. Revenue expenditure	73,510	1,15,982
5. Capital expenditure	31,800	67,832
6. Total expenditure (4+5)	1,05,310	5,14,344
7. Budgetary Deficit (3-6)	11,350	Nil
8. Fiscal deficit [1 + 2(a) - 6 = 7 + 2(b)]	44,650	1,51,144

Budget deficit is Total receipt – Total expenditure

So here,

For 1990-91,	Rs. 93,960 crore – Rs. 1,05,310 crore	=	Rs. 11,350 crore
For 2004-05,	Rs. 5,14,344 crore – Rs. 5,14,344 crore	=	Nil

Fiscal deficit is

(a) the difference between total expenditure and total revenue receipts and capital receipts but excluding borrowings and other liabilities. ***or***

(b) it is the sum of budget deficit plus borrowings and other liabilities.

So here, for 1990-91, Fiscal deficit is

1st Method:

Total expenditure	=	Rs. 1,05,310 crore
(-) Total revenue receipts (no.1)	=	Rs. 54,950 crore
(-) Capital receipts [no.2(a)]	=	Rs. 5,710 crore

Or Rs. 1,05,310 crore – Rs. 60,660 crore

Or Rs. 44,650 crore

2nd Method:

Budget deficit (item 7) + borrowings and other liabilities (item 2(b))

= Rs. (11,350 + 33,300) crore

= Rs. 44,650 crore

For 2004-05, Fiscal deficit is

1st Method = Rs. 5,14,344 crore – Rs. [3,51,200 + 12,000] crore

= Rs. 1,51,144 crore.

2nd Method = Nil + Rs. 1,51,144 crore

= Rs. 1,51,144 crore

6.1 TRENDS IN INDIA'S BUDGET AND FISCAL DEFICITS

Budgetary deficit which shows the difference between total revenue and total expenditure does not give a true picture of the financial health of the economy. It treats government borrowing from the market or raising the funds from the public such as national savings schemes, post office saving deposits, provident fund collections etc. as receipts. Originally, budget deficit was calculated to show RBI lending to the government. In 1997, the practice of RBI lending to government through ad hoc Treasury Bills was given up. Thus the concept lost its relevance and now it is no longer shown in the budgetary statement. The government now taps 91 days treasury bills from the market and shows it as part of the capital receipts under the heading "borrowings and other liabilities".

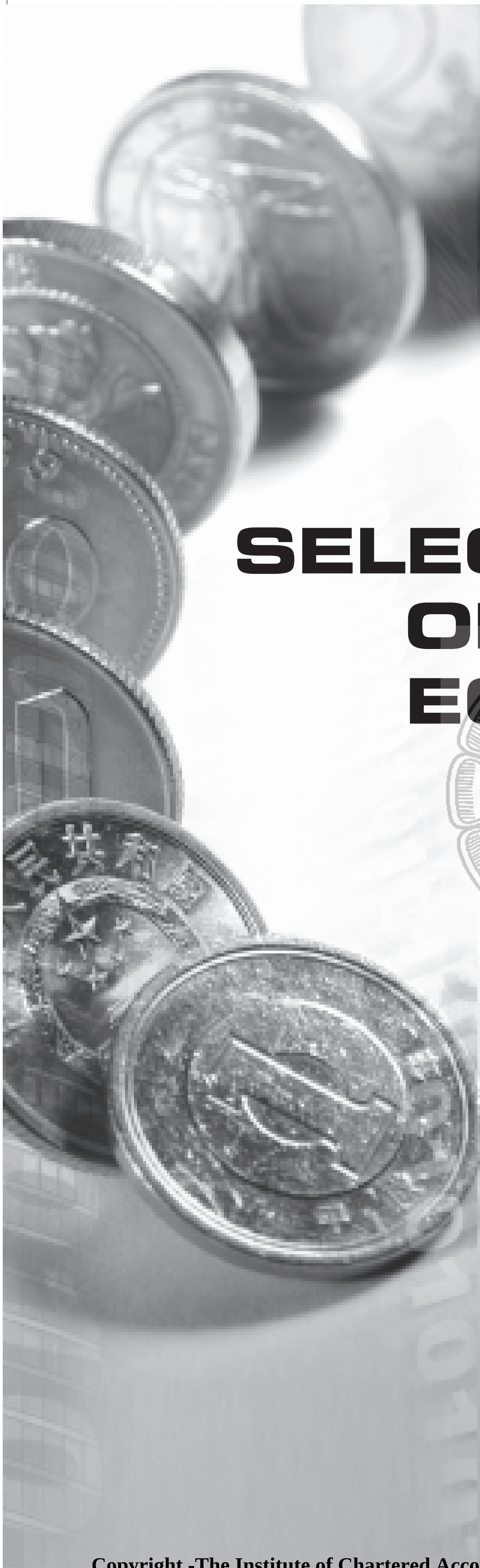
Fiscal deficit is a more comprehensive measure of the imbalances. It focuses on/measures the total resource gap and as such fully reflects the impact of the fiscal operations of the indebtedness of government. It is the measure of excess expenditure over the government's own income.

Fiscal deficit in India have grown rapidly. In the fifteen year period of 1975-90, the fiscal deficit of the Central Government rose alarmingly from 4.1 per cent of GDP to 7.9 per cent of GDP. The then present fiscal malaise had been caused by unchecked growth of non planned revenue expenditure. Non plan revenue expenditure particularly on defense, interest payments and food and fertiliser subsidies rose sharply during 1980s. In 1991, major steps were taken to correct the fiscal imbalances. Many expenditures were cut and controlled (e.g. subsidies). Fiscal deficit was reduced to 4.7 per cent in 1991-92 and to 4.1 per cent in 1996-97. Since 1997-98, fiscal deficit has again started increasing. It stood at 5.6 per cent in 2000-01. To restore fiscal discipline, the Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in 2000 and FRBM Act was passed in 2003. The Act aims at reducing gross fiscal deficit by 0.5 per cent of the GDP in each financial year (beginning on April 1, 2000). As a result of the efforts taken, the fiscal deficit as a proportion of GDP has started declining. During 2003-04, it was 4.5 per cent, during 2004-05 and 2005-06 it was 4.1 per cent, *during 2006-07 and 2007-08 it was 3.5 per cent and 2.7 per cent respectively.*

World wide financial crisis affected Indian economy also. The extraordinary situation that emerged due to crisis had led to a sharp shrinkage in the demand for exports. Domestic demand also shrank leading to a downturn in industry and services sectors. The situation demanded a fiscal response. The measures taken included increase in the plan expenditure, reduction in indirect taxes, sector specific measures for textiles, housing, infrastructure, automobiles, micro and small sectors and exports etc. These, together with debt relief package for farmers and outlay due to Sixth Pay Commission recommendations led to an upsurge in the fiscal deficit to 6.2% of GDP compared with 2.7% for 2007-08.

SUMMARY

Budget deficit is the difference between total receipts and total expenditure. If borrowings and other liabilities are added to budget deficit, we get fiscal deficits. Since budget deficit does not show the true picture of government liabilities and hence a true picture of the financial health of the economy, the practice of showing budget deficit in the budget was given up in 1997. Budgets now show fiscal deficits to show the overall shortfalls in the public revenues. Over the years, fiscal deficits have grown rapidly and have become the cause of concern. To meet the challenge, many reforms have been carried out but still the problem of high fiscal deficit remains.



CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 7

Balance of Payments

Learning Objectives

At the end of this unit, you will be able to:

- understand the meaning of Balance of Payments.
- know the difference between Balance of Payments and Balance of Trade.
- know of the developments in Balance of Payments situation in India since Independence.

7.0 MEANING OF BALANCE OF PAYMENTS AND BALANCE OF TRADE

The Balance of Payments (BOP) is one of the oldest and most important statistical statements for any country. It is a systematic record of all economic transactions between the residents of one country and the residents of the rest of the world in a year. Since we merely record all receipts and payments in international transactions using double entry system, the balance of payments always balance in an accounting sense.

Balance of Trade : Balance of Trade may be defined as the difference between the value of goods sold to foreigners by the residents and firms of the home country and the value of goods purchased by them from foreigners. If value of exports of goods is equal to the value of imports of goods, we say that there is balance of trade equilibrium and if the latter exceeds the former, then we say that there is balance of trade deficit. But if the former exceeds the latter, i.e., if value of exports of goods is more than the value of imports of goods, we say there is surplus balance of trade.

Balance of Current Account : Balance of current account is a broader concept than the balance of trade. It includes balance of services and balance of unilateral transfers (i.e., unrequited transfers) besides including balance of trade. Balance of services records all the services exported and imported by a country in a year. Unlike goods which are visible and tangible, services are invisible and are not tangible. The services transactions basically include: (i) transportation, banking and insurance receipts and payments from and to the foreign countries, (ii) tourism, travel services and tourist purchases of goods and services received from foreign visitors to home country and paid out in foreign countries by home country citizens, (iii) expense of diplomatic and military personnel from overseas as well as receipts from similar personnel from overseas who are stationed in the home country, and (iv) interest, profits, dividends and royalties received and paid from and to the foreigners. Balance of services is the sum of all invisible service receipts and payments which could be zero, positive or negative. Balance of unrequited transfers includes all gifts, donations, grants and reparation, receipts and payments to foreign countries. All these balances, i.e., balance of trade, balance of services and balance of unrequited transfers constitute balance of current account. It could again be positive, negative or zero depending upon the values of these balances. It is worth noting that balance of payments on current account covers all receipts on account of earnings (as opposed to borrowings) and all the payments arising out of spending (as opposed to lending). This is in sharp contrast to balance of payments on capital account.

Balance of Payment on capital account : Balance of payments on capital account includes balances of private direct investments, private portfolio investments and government loans to foreign governments. Balance of capital account basically deals with debts and claims of the country in question or we say it deals with borrowings or lending of the country in question.

Balance of Payments : Overall balance of payments is the sum of balance of current account and balance of capital account. It includes all international monetary transactions of the reporting country vis-à-vis the rest of the world. The balance of payments must always balance in a book-keeping sense. This is because for any surplus (or deficit) in the overall balance of payments there must be a corresponding debit (or credit) entry in the net changes in external reserves. In other words, if there is a surplus it adds to external reserves of the country and if there is a deficit, it reduces down the external reserves of the country.

7.1 TRENDS IN BALANCE OF PAYMENTS OF INDIA

A country, like India, which is on the path of development generally, experiences a deficit in balance of payments situation. This is because such a country requires imported machines, technology and capital equipments in order to successfully launch and carry out the programme of industrialisation. Also, since initially it has only primary goods to offer as exports, it generally has an unfavourable balance of payments position. As pace of development picks up it has to have 'maintenance imports' although it has now more sophisticated goods to offer for exports. But the situation remains the same i.e., deficit balance of payments.

This has exactly happened in India. Over the period of planning India's balance of payments has generally remained unfavourable. However, deficit in balance of payments sharply increased after the Fifth Plan. During the whole of the Fifth Plan, India experienced surplus in the balance of payments due to a sharp increase in the export surpl.us on account of invisible remittances (money sent by a foreign worker to his home country) From 1979-80 onwards, India started experiencing very adverse balance of payments. This happened because growing trade deficits, which till then were offset by net receipts could not be made good by them in spite of the fact that the rising trends in the net receipts on account of invisibles noticed in the past few years continued in 1980-81 to 1985-86. Apart from external assistance, India had to meet this huge deficit in the current account through withdrawals and borrowings from IMF. It also used up a part of its foreign exchange reserves.

The Sixth Plan characterised the balance of payments position as 'acute'. During the Sixth Plan, the trade deficit was 3.3 per cent of GDP and current account deficit was 1.4 per cent of GDP. Exports performance substantially improved in the Seventh Plan with average volume growth exceeding 7 per cent. However, the balance of payments continued to be under strain on account of a combination of several medium and short term adverse factors. There was no significant growth in indigenous oil production while domestic demand for petroleum products went on rising. There was a steep rise in debt services payments. The share of net invisible earnings in financing trade deficit declined from 63 per cent during the Sixth Plan to 29.5 per cent during the Seventh Plan. The average current account deficit as a per cent of GDP increased to 2.4 per cent in the Seventh Plan. The large and sustained current account deficit in the BOP had to be financed by substantial inflow of capital in the form of loans from various sources, commercial borrowings and inflow of funds from NRIs. In early 1990-91, the already poor BOP position worsened because of Gulf war and further deterioration in invisible remittances.

An immediate response to the BOP crisis was introduction of several restrictions on import in 1990-91. In 1992-93, many important changes such as a new system of exchange rate management, liberalisation of import licensing and tariff reductions were introduced. Data of 1992-93 show that there has been significant revival of imports and exports during the year with the result that the current account deficit came down to 2.1 per cent of GDP in 1992-93.

In the year 1993-94, India saw a remarkable turnaround from a foreign exchange constrained control regime to a more open, market driven and liberalised economy. This has been facilitated by the structural changes in the country's balance of payments. The trade liberalisation and a shift to a market-determined exchange rate regime have had a significant positive impact on the country's balance of payments.

Exports recorded a growth of 20 per cent in dollar terms. The surplus on the invisible account doubled. The current account deficit shrank, and the capital account was strengthened by sharp increase in direct foreign investments and portfolio investments. Not only this, foreign currency reserves which were just $1205 million in 1990 reached the level of $19,386 million in 1994. The balance of payments position further consolidated in 1994-95. The build up in foreign currency reserves which reached a level of $19.6 billion at the end of January 1995, the economy thus moved to a more stable and sustainable balance of payments position.

The balance of payments situation remained comfortable in 1995-96, 1996-97 and 1997-98. In 1998-99, despite the continuing slow down of exports and a marked deceleration in capital flows, the BOP situation was not unmanageable. Exports during 1999-2000 showed a welcome recovery. Similarly, imports also picked up. The current account deficit in the year 2000-01 was 0.5 per cent of GDP. It was 1.1 per cent in 1999-2000. This improvement in current account deficit was made possible largely because of the dynamism in export performance, sustained buoyancy in invisible receipts and subdued non-oil import demand. The BOP position remained comfortable during 2001-02.

In the Tenth plan total exports grew at about 24 per cent per annum. This was largely due to the impressive growth of petroleum products which grew at more than 50 per cent during the Plan. Manufactured goods recorded an impressive growth of about 20 per cent per annum and exports of agricultural and allied products also rose at a healthy rate of more than 16 per cent.

North America (occupying first place) continued to be an important destination of India's exports. During the Tenth Plan nearly 16 per cent of India's exports went to North America. European Union countries (27 in number) had a combined share of more than 21 per cent in India's exports during the Tenth Plan. The share of Asia and ASEAN countries steadily increased during the Tenth Plan and the region accounted for nearly half of India's exports during the Plan.

Imports recorded a compound annual growth rate of around 30 per cent during the Tenth Plan. The high growth was mainly due to increase in oil prices. The crude oil and petroleum products taken together were the single most important category of imports during the Plan. This group accounted for nearly 30 per cent of the total value of imports by India during the Plan. The share of machinery and project goods registered a significant increase during the plan increasing from 11.3 per cent in 2002-03 to 18 per cent in 2006-07. Asian countries remained our main supplier of imports during the Plan. Their share increased from around 30 per cent in 2002-03 to more than 57 per cent in 2006-07.

The merchandise trade deficit widened sharply during the Tenth Plan mainly on account of the growing oil import bill.

We had a current account surplus for three successive years (2001-04). Buoyant invisible flows, particularly private transfers comprising remittances, along with software services exports, have been instrumental in creating and sustaining current account surpluses for India for *the above period. However, since 2003-04 trade deficit has widended sharply, particularly in 2004-06, because of higher outgo on import of petroleum, oil and lubricants. As a result, current account surpluses have once again turned into deficits inspite of the fact that invisibles flows have continued to swell. For the years 2004-05, 2005-06 and 2006-07 the current account deficits were (-) 0.4 per cent and (-) 1.1 per cent and (-) 1 per cent respectively.*

In the Eleventh Plan exports are projected to grow at about 20 per cent per year in US dollar terms, the imports are projected to grow at 23 per cent, current account deficit could range between 1.2 per cent to 2 per cent and trade deficit could reach 16 per cent at the end of the Plan.

During the first year of the Eleventh Plan, export increased by around 30 per cent, imports increased by 35 per cent, current account balance was (-) 1.5 per cent of GDP and trade balance was (-) 7.8 per cent of GDP.

The year 2008-09 was marked by adverse development in the external sector of the economy, particularly during the second half of the year, reflecting the impact of global financial crisis. Exports grew by 17.5 per cent and imports by 30.6 per cent during April - December 2008-09. Despite higher invisible surplus, the trade deficit widened mainly because of higher growth of imports and slower growth of exports. The current account deficit ratio to GDP reached 4.1 per cent during April-December 2008-09.

Foreign direct investment (FDI) has grown significantly on net (inward minus outward) basis. The year to year growth (net) was 154 per cent in 2006-07 and 100 per cent in 2007-08. During April-December 2008, net FDI remained buoyant at US $ 15.4 billion as compared to US $ 6.9 billion in April-December 2007. Considering global FDI inflows in various countries, India ranked ninth.

Foreign exchange reserves declined from US $ 309.7 billion in 2007-08 to US $ 252 billion in 2008-09.

The United States of America continued to be the principal destination accounting for 12 per cent of India's total exports in 2008-09, followed by UAE(10.8 per cent), China(5.1 per cent), Singapore (4.8 per cent), Hong Kong (3.7 per cent) and UK (3.6 per cent).

In 2008-09, Asia and ASEAN continued to be the major source of India's imports accounting for more than 61 per cent of total imports.

Thus, we find that there has been a significant improvement in the structure of India's balance of payments since the economic crisis of 1991. Comparing the pre-crisis with the post-crisis data we find that exports grew at an annual average of 7.6 per cent during 1980 to 1992 and at an annual average of 10 per cent 1992-93 to 2000-2001. Similarly, imports grew at 13.7 per cent per annum during 1992-93 to 2000-2001 compared with just 8.5 per cent growth rate during 1980-1992. Moreover, the current account deficit, as percentage of GDP has declined from 1.9 per cent during pre-crisis period to around 1 per cent during post-crisis period and during 2001-04 we even had surplus in the current account. Since then also, the external sector has shown resilience despite slow down in the global economy.

SUMMARY

No country is self-sufficient today. It has to depend upon other countries for its imports and exports. For evaluating its performance on the international front it prepares 'Balance of Trade' and 'Balance of Payments' statements. Balance of trade is the statement showing balance of merchandise trade only. In Balance of payments we have other transactions such as capital transactions, balance on account of service transactions, gold transactions, etc. A country could be having a surplus in balance of trade and a deficit in balance of payments simultaneously.

While analysing India's balance of payments situation we find that it started deteriorating since 1979-80. This happened because growing trade deficits which till Fifth Plan were offset by net receipts could not be made good by them in spite of the fact that the rising trend in the net receipts continued till early 80's. The current account deficit which was 1.3 per cent of GDP in the Sixth Plan stood at 2.2 per cent during the Seventh Plan. This large and sustained current account deficit had to be financed by substantial inflow of capital in the form of loans, commercial borrowings and inflow of funds from NRIs. The Gulf crisis further deteriorated our balance of payments position. Our reserves touched very low levels. In order to combat all these problems and to boost exports and curb imports changes were made from time to time in our foreign trade policy. Many schemes were started and incentives were given for improving exports. Devaluation (reducing the value of local currency vis-a-vis other currencies) of rupee was carried out, loan was sought from the IMF and new trade policy was announced. As a result, we now have quite comfortable balance of payments situation.

CHAPTER – 6

SELECT ASPECTS OF INDIAN ECONOMY

Unit 8

External Debt

Learning Objectives

At the end of this unit, you will be able to:

- ♦ understand the types of external assistance received by India.
- ♦ know the changes that have taken place over the years in the structure of external assistance received by India.

8.0 EXTERNAL DEBTS IN INDIA

Since no country is self-sufficient, it has to rely on other countries and international organizations for financial assistance. This is especially true for a developing country which is on the path of development. It needs funds for its various developmental projects. India is no exception. Ever since Independence it has relied on other countries for external assistance. External assistance to India has been in two forms – grants and loans. While grants do not involve any repayment obligation, loans carry an obligation to pay interest and repay the principal. About 90 per cent of the external assistance received by India has been in the form of loans. These loans have been from different sources like World Bank, International Monetary Fund (IMF), International Development Association, U.S.A., U.K., Japan, etc. A large part of the loan, especially from multilateral and bilateral agencies has high degree of concessionability i.e., grant element of at least 25 per cent. The share of concessional debt in total debt *now* is about *20* per cent. At one time (1980-81) it was as high as 75 per cent.

India's external debt amounted to Rs 13,470 crore at the end of March 1981. As liberal use of borrowing has been made ever since then, the external debt stood at more than Rs 4,80,000 crore at end March 2002 and nearly 9,00,000 crore at end March 2008.

As per cent of GDP, India's external debt was 11.7 per cent at end March 1991; it became 21 per cent at end March 2002 but reduced to 19 per cent at end March 2008. Debt service ratio i.e. the ratio of gross debt service payments (principal and interest) to external current receipts was as high as 35.3 in 1990-91; it declined to 13.7 per cent in 2001-02 and further to 5.4 in 2007-08.

In terms of indebtedness classification, the World Bank has categorized India as a less indebted country since 1999. Among the top 15 debtor countries of the world, India improved its rank from third debtor after Brazil and Mexico in 1991 to ninth in 2001 after Brazil, China, Mexico, Russian Federation, Argentina, Indonesia, Turkey and Korea Republic and further to sixth after Russian Federation, China, Turkey, Brazil and Poland in 2008.

It needs to be also recognized that the debt service ratio (ratio of principal and interest to total exports) for India remains high by international standards. Besides, India's exports of goods as a percentage of GDP works out to be around 14 per cent. This ratio which represents the potential capacity of the nation to service external debt, being relatively low, makes India vulnerable to external shocks. This, therefore, underscores the need for sustaining the growth in exports and invisibles.

SUMMARY

Like any developing economy, India has had been facing financial crunch. Therefore, it relies on other countries and international organisations for financial assistance. Financial assistance has been in two forms – grants and loans. Till 1980-81, the percentage of grants in total external assistance to India had been quite high. But now, the percentage of commercial loans in total assistance is increasing. India needs to push up its exports so its capability of repaying the loans strengthens.

MULTIPLE CHOICE QUESTIONS

1. What is India's rank in world population?
   a. First.
   b. Second.
   c. Third.
   d. Fourth.
2. The annual addition to India's population is almost equal to the total population of
   a. Bangladesh.
   b. Australia.
   c. Japan.
   d. China.
3. In which state is the sex ratio most favourable to women?
   a. Andhra Pradesh.
   b. Uttar Pradesh.
   c. Kerala.
   d. Karnataka.
4. Which year is known as year of great divide for India's population?
   a. 1991.
   b. 2001.
   c. 1981.
   d. 1921.
5. In which state/union territory is the literacy rate highest?
   a. Delhi.
   b. Chandigarh.
   c. Karnataka.
   d. Kerala.

6. India's passing through _________ stage of demographic transition.
   a. Fourth.
   b. Third.
   c. First.
   d. Second.
7. In the theory of demographic transition in the last stage,
   a. Birth rate rises, death rate rises.
   b. Birth rate rises, death rate falls.
   c. Birth rate falls, death rate rises.
   d. Birth rate falls, death rate falls.
8. Which of the following statements is correct?
   a. India's population is second largest in the world.
   b. India is still passing through first stage of demographic transition.
   c. More people in a country always mean more economic trouble for the country.
   d. None of the above.
9. India's present population is
   a. Between 50-60 crore.
   b. Between 60-70 crore.
   c. Between 70-80 crore.
   d. Above 100 crore.
10. India accommodates nearly ______________ per cent of world's population.
    a. 10.
    b. 50.
    c. 17.
    d. 45.
11. Over the years, birth rate in India has __________ and death rate has _____________.
    a. Fallen, fallen.
    b. Risen, fallen.
    c. Risen, risen.
    d. Fallen, risen.

12. The birth rate in India is high because of
    a. Predominance of agriculture.
    b. Slow urbanisation.
    c. High incidence of poverty.
    d. All of the above.
13. Which of the following statements is correct?
    a. Gini coefficients are often used for measuring poverty in relative sense.
    b. When poverty is related to the distribution of income or consumption expenditure, it is absolute poverty.
    c. In India, we mainly use the concept of relative poverty for measuring poverty.
    d. None of the above.
14. Identify the incorrect statement.
    a. The problems of poverty and unemployment are inter-related.
    b. The problem of poverty has been solved in India.
    c. Growing population has also contributed to the problem of poverty in India.
    d. None of the above.
15. SJSRY stands for
    a. Swaran Jayanti Shahari Rozgar Yojana.
    b. Shahari Jeewan Sudhar Rashtriya Yojana.
    c. Sampoorna Jeewan Shahari Rozgar Yojana.
    d. None of the above.
16. EAS stands for
    a. Easy Assistance Scheme.
    b. Endless Assistance Scheme.
    c. Employment Assurance Scheme.
    d. Employment Assessment Scheme.
17. A situation of employment in which a person is apparently employed but his contribution to the production is almost nil is called ________ unemployment.
    a. Structural.
    b. Chronic.
    c. Disguised.
    d. Cyclical.

18. ______________ unemployment may result when some workers are temporarily out of work while changing job.

   a. Cyclical.

   b. Voluntary.

   c. Frictional.

   d. Seasonal.

19. According to _________________ measure, a person is said to be employed for the week even if he is employed only for a day during the week.

   a. Usual status.

   b. Current weekly status.

   c. Current daily status.

   d. Current yearly status.

20. ___________________ measure estimates the number of persons who may be said to be chronically unemployed.

   a. Usual status.

   b. Current weekly status.

   c. Current daily status.

   d. Current yearly status.

21. When due to introduction of new machinery, some workers tend to be replaced by machines, their unemployment is termed as ________________.

   a. Structural.

   b. Technological.

   c. Mechanical.

   d. Seasonal.

22. Every ___________person in the world is an Indian.

   a. Second.

   b. Third.

   c. Sixth.

   d. Tenth.

23. _____________________ measure generally gives the lowest estimate of unemployment especially for poor economy.

   a. Usual status.

   b. CWS.

c. CDS.

d. CMS.

24. Most of the unemployment in India is _______________.

a. Voluntary

b. Structural

c. Frictional

d. Technical

25. According to the Planning Commission, using Mixed Recall period (MRP) _____________ per cent people were below poverty line in 2004-05.

a. Rs. 26.2

b. Rs. 25.2

c. Rs. 27.8

d. *Rs. 21.8*

26. Work force refers to that part of:

a. Labour force which is employed.

b. Population which is unemployed.

c. Population which is forced to work.

d. Labour force which is unemployed.

27. According to the *61st* NSSO survey *(July 2004 - June 2005):*

a. The unemployment rates went down between 1993-94 to 2004.

b. The unemployment rates went up between 1993-94 to 2004.

c. The unemployment rates remained same between 1993-94 to 2004.

d. None of the above.

28. According to the *61st* NSSO survey *(July 2004 - June 2005):*

a. unemployment rates on the basis of current daily status were same as those on the basis of usual status.

b. unemployment rates on the basis of current daily status were higher than those on the basis of usual status.

c. unemployment rates on the basis of current daily status were lower than those on the basis of usual status.

d. none of the above.

29. At present, nearly ____________ per cent of the energy consumed is obtained from non-commercial traditional sources.

   a. 45.

   b. 51.

   c. 27.

   d. 10.

30. The highest user of commercial energy is

   a. agriculture.

   b. transport.

   c. household.

   d. industry.

31. In terms of generation of power __________________ 's contribution, is the maximum.

   a. hydel.

   b. nuclear.

   c. thermal.

   d. others.

32. NTPC stands for

   a. National Thermal Power Corporation.

   b. National Tidal Power Corporation.

   c. National Theological Power Corporation.

   d. National Talent and Potential Corporation.

33. ______________________ measures the operational efficiency of a thermal plant.

   a. Power load factor.

   b. Power leakage factor.

   c. Plant load factor.

   d. Plant leakage factor.

34. According to the latest data *(2008-09)* PLF is lowest in

   a. southern region.

   b. northern region.

   c. western region.

   d. north eastern region.

35. Considering State Electricity Boards (SEBs) central sector and private sector, PLF is highest in____________.
    a. private sector.
    b. SEBs.
    c. central sector.
    d. both for SEBs and private sector.

36. Electricity generated from radio active elements is called
    a. thermal electricity.
    b. atomic energy.
    c. hydel electricity.
    d. tidal energy.

37. Which of the following statements is correct?
    a. The demand and the supply of fuel are almost equal.
    b. Our import bill on account of oil has been decreasing since 1990.
    c. Oil prices have been decreasing since 1973.
    d. Transmission and distribution losses of power companies are very high.

38. Which of the following statements is incorrect?
    a. The Indian road network is *one of the* longest *networks* in the world.
    b. The rural road network connects around 65 per cent of all weather roads.
    c. Most of the State Road Transport Corporations are running on profits.
    d. The National highways carry more than 40 per cent of the total road traffic.

39. In terms of overseas shipping tonnage, India ranks ______________ (2007).
    a. 10^{th}.
    b. 15^{th}.
    c. 25^{th}.
    d. 20^{th}.

40. Of the major 12 ports, ____________ is the top traffic handler.
    a. Paradip.
    b. Cochin.
    c. Vishakhapatnam.
    d. Mumbai.

41. Sahara Jet and Kingfisher are examples of

    a. private schools.

    b. private airlines.

    c. private ships.

    d. private railways.

42. Our postal network is ________________ in the world.

    a. *the largest network.*

    b. *fifth smallest.*

    c. tenth largest.

    d. tenth smallest.

43. On an average, one post office in India serves ________.

    a. 100 persons.

    b. 1000 persons.

    c. *7174 persons.*

    d. 5800 persons.

44. There are about __________ phones per hundred population in India.

    a. 35.65.

    b. 12.85.

    c. 13.83.

    d. 15.15.

45. Who is regulatory authority for telecom in India?

    a. SEBI.

    b. TRAI.

    c. MTNL.

    d. BSNL.

46. Over the years, the incidence of malaria (cases in million) has ________________.

    a. reduced

    b. increased.

    c. remained the same.

    d. doubled.

47. Over the years, the number of polio cases has
    a. increased.
    b. reduced.
    c. remained the same.
    d. doubled.
48. NLM stands for
    a. National Leprosy Mission.
    b. National Logistic Mission.
    c. National Literacy Mission.
    d. National Law Mission.
49. IIM stands for
    a. Indian Institute of Marketing.
    b. Indian Institute of Manpower planning.
    c. Indian Institute of Management.
    d. International Institute of Management.
50. When too much money chases too few goods, the resulting inflation is called __________.
    a. deflation.
    b. demand-pull inflation.
    c. cost-push inflation.
    d. stagflation.
51. The combined phenomenon of stagnation and inflation is called ______________.
    a. demand-pull inflation.
    b. cost-push inflation.
    c. money inflation.
    d. stagflation.
52. When prices are falling continuously, the phenomenon is called _______________.
    a. inflation.
    b. stagflation.
    c. deflation.
    d. reflation.

53. When the government tries to meet the gap of public expenditure and public revenue through borrowing from the banking system, it is called ________________.

  a. deficit financing.
  b. debt financing.
  c. credit financing.
  d. none of the above.

54. ___________ is the difference between total receipts and total expenditure.

  a. Fiscal deficit.
  b. Budget deficit.
  c. Revenue deficit.
  d. Capital deficit.

55. If borrowings and other liabilities are added to the budget deficit we get ______________.

  a. revenue deficit.
  b. capital deficit.
  c. primary deficit.
  d. fiscal deficit.

56. FRBM Act stands for

  a. Fiscal Revenue and Budget Management.
  b. Foreign Revenue and Business Management.
  c. Fiscal Responsibility and Budget Management.
  d. Foreign Responsibility and Budget Management.

57. _______________________ is a systematic record of all the economic transactions between one country and rest of the world.

  a. Balance of trade.
  b. Balance of transactions.
  c. Budget.
  d. Balance of payments.

58. EPCG scheme stands for

  a. Export Package For Capital Goods.
  b. Export Promotion Capital Goods.
  c. Excise Promotion Capital Goods.
  d. Excise Package For Capital Goods.

59. The share of concessional debt in total external debt of India has
    a. remained the same.
    b. doubled.
    c. reduced.
    d. increased.
60. About _______________ per cent of the external assistance has been in the form of loans.
    a. 40.
    b. 30.
    c. 10.
    d. 90.
61. Among all the states, ————— has the lowest birth rate of and ————— has the highest birth rate.
    a. Kerala, Uttar Predesh
    b. West Bengal, Uttar Pradesh
    c. Kerala, West Bengal
    d. Kerala, Bihar
62. Considering death rate, ————— has the lowest death rate and __________ has the highest death in 2007.
    a. Kerala, Uttar Pradesh
    b. West Bengal, Orissa
    c. Madhya Pradesh, West Bengal
    d. Kerala, Orissa
63. Which state has the lowest life expectancy at birth?
    a. Kerala
    b. Bihar
    c. Madhya Pradesh
    d. Uttar Pradesh
64. Maternal Mortality Rate is highest in ————.
    a. U.P
    b. M.P.
    c. Bihar
    d. Kerela

65. India is the world's ———— largest energy producer.

a. fifth

b. second

c. seventh

d. first

66. India is the world's ————largest energy consumer.

a. second

b. seventh

c. first

d. fifth

67. Almost ————per cent of India's global merchandise trade is carried through the sea route.

a. 95

b. 65

c. 80

d. 55

68. In the Tenth plan, total exports grew at about ——— per cent per annum.

a. 10

b. 15

c. 24

d. 5

69. Imports recorded a compound annual growth rate of around ————per cent during the Tenth Plan.

a. 30

b. 20

c. 10

d. 40

70. The ———— continued to be the principal destination of India's total exports in 2008-09.

a. Japan

b. United States of America

c. South Korea

d.. Russia

71. In 2008-09, ————————— continued to be the major source of India's imports.

 a. Asia and ASEAN

 b. EU

 c. North America

 d. South America

72. In terms of indebtedness classification, the World Bank has categorized India as a ——————country since 1999.

 a. highly indebted

 b. less indebted

 c. severely highly indebted

 d. zero indebted

73. Among the top 15 debtor countries of the world, India is ranked at —————. (2008)

 a. tenth

 b. fifteenth

 c. sixth

 d. ninth

74. As per cent of GDP, India's external debt is —— per cent. (2008)

 a. 10

 b. 15

 c. 12

 d. 19

75. India's debt service ratio is ——————. (2007-08)

 a. 11.5

 b. 5.4

 c. 30.5

 d. 10

76. Sex ratio refers to the numbers of females per _________ males

 a. 100

 b. 300

 c. 1000

 d. Non of the above

77. Which state shows are lowest infant mortality rate in India?

a. Uttar Pradesh

b. Andhra Pradesh

c. Kerala

d. Tamil Nadu

ANSWERS

1.	b	2.	b	3.	c	4.	d	5.	d	6.	d
7.	d	8.	a	9.	d	10.	c	11.	a	12.	d
13.	a	14.	b	15.	a	16.	c	17.	c	18.	c
19.	b	20.	a	21.	b	22.	c	23.	a	24.	b
25.	d	26.	a	27.	b	28.	b	29.	c	30.	d
31.	c	32.	a	33.	c	34.	d	35.	a	36.	b
37.	d	38.	c	39.	d	40.	c	41.	b	42.	a
43.	c	44.	a	45.	b	46.	a	47.	b	48.	c
49.	c	50.	b	51.	d	52.	c	53.	a	54.	b
55.	d	56.	c	57.	d	58.	b	59.	c	60.	d
61.	a	62.	b	63.	c	64.	b	65.	c	66.	d
67.	a	68.	c	69.	a	70.	b	71.	a	72.	b
73.	c	74.	d	75.	b	76.	c	77.	c		