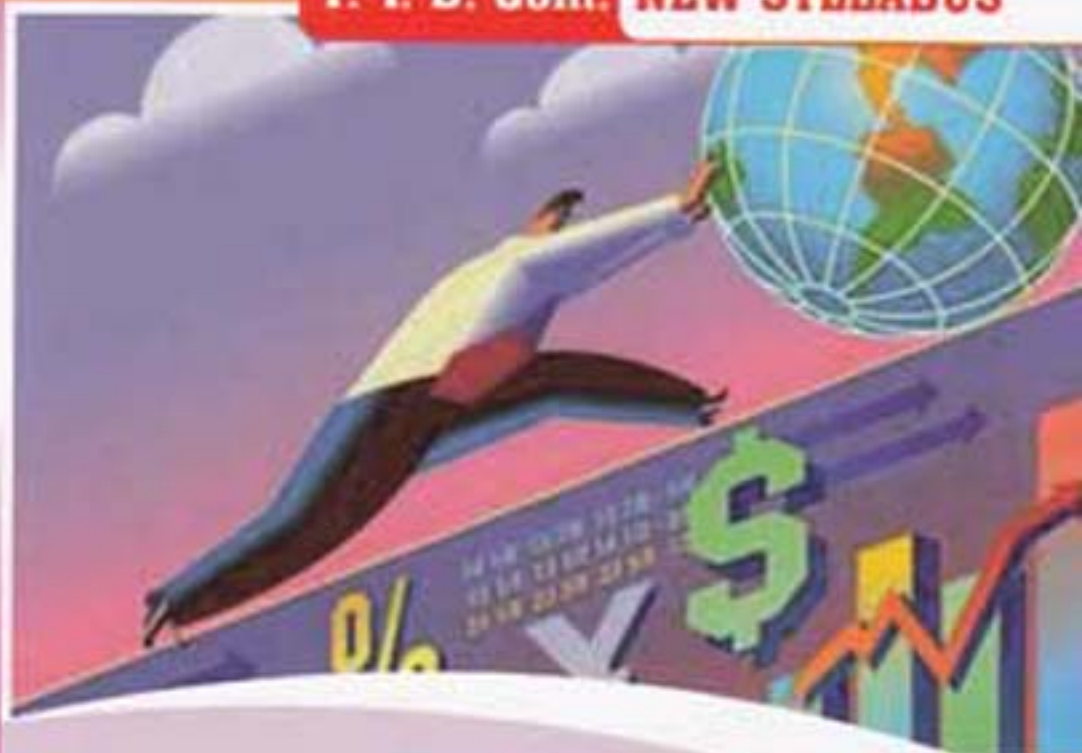


**T. Y. B. Com. NEW SYLLABUS**



# INDIAN AND GLOBAL ECONOMIC DEVELOPMENT

Dr. MUKUND MAHAJAN

 **NIRALI**  
PRAKASHAN  
ADVANCEMENT OF KNOWLEDGE

***A Book Of***

# **INDIAN AND GLOBAL ECONOMIC DEVELOPMENT**

**For Third Year B. Com.  
As Per New Syllabus  
Effective from June 2015**

**Dr. Mukund Mahajan**  
Ph.D.

**Price ₹ 185.00**

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**PRAKASHAN**  
**ADVANCEMENT OF KNOWLEDGE**

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## **Preface ...**

After the turn of the century, the process of connecting the Indian economy to the world economy covered a great deal of ground so as to make the process near complete. These economic reforms did bring about certain benefits to India; but they also invited a number of unprecedented problems. For instance, Indian imports recorded a growth; but India also started importing world economic problems. Consequently, the problems with which we were familiar witnessed an intensive as well as an extensive growth. Naturally, the strategies to resolve these problems and the complexities of their outcome also changed. It is hardly any wonder that the revised syllabus, being introduced w.e.f. academic year 2015, had to be overhauled to suit the need of understanding of the present day nature and problems of the Indian economy.

We seized this opportunity and we are happy to present this new edition to the students of T.Y.B.Com. This new edition goes much beyond updating the policy initiatives and performance statistics recorded by the Indian economy, in the recent past. The present book has gone through a large amount of additional matter and inputs. This additional matter is not only informative but analytical and would certainly equip the students for a better understanding of the subject they are expected to study. Care, however, and as usual, has been taken to avoid terseness of diction, unwarranted detailing of description and frightening use of statistical bombardment. In other words, the readers would find that though the Indian economy has undergone several changes, our style of writing has not changed and continues to be lucid, simple and reader-friendly.

I acknowledge with gratitude the efforts taken by Mr. Arindam Haldar (M.A.) in scrupulously scanning the whole manuscript and making valuable suggestions in respect of updating the text. I must also appreciate the untiring work, done by Mr. Amol Mahabal, of putting together the bits and pieces I went on furnishing as per my convenience (and not in keeping with the requirement of the text). The promptness of Mr. Malik Shaikh in type-setting and the helping hand extended by others who preferred remaining behind the curtain, also deserve my heart-felt appreciation. The last but the most important acknowledgement stands earned by Shri. Dineshbhai Furia and Shri. Jigneshbhai Furia but for whose entrepreneurial abilities, organisational skills and co-ordination competencies, the timely production of this book, with its established quality norms, would not have been possible ! I am grateful to both of them.

I am sure the book would meet the needs and expectations of my teacher and student friends. They have always been my focal group and my basic source of inspiration.

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15<sup>th</sup> June, 2015.**

**- Dr. Mukund Mahajan**



# Syllabus ...

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# Chapter **1** ...

## **Introduction**

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### **Contents ...**

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    - 1.3.3 Agriculture
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### **1.1 Introduction**

The last few years have witnessed a buoyant performance of the service sector and a growth of production in the durable consumer goods sector, mainly due to the involvement of global players vying for a large share in the vast Indian market. This has kept the rate of economic growth reasonably high. This also helped India to tide over the economic slow-down relatively smoothly. But economic development demands many more things than just a high average rate of economic growth. For example, it is concerned with equity in income distribution, fairly distributed regional development and sectoral balance in the economy. While discussing characteristics of our economy – as an emerging economy, we have to take account of economic dualism, wide-spread poverty, growing income disparities, jobless development, infrastructural inadequacies, lack of satisfactory performance of agriculture and so on.

Michael Torado writes, "throughout the world, people wake each morning to face a new day in very different circumstances. Some live in comfortable homes with many rooms. They

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have more than enough to eat, are well clothed, in good health and can look forward to a reasonable degree of financial security. Others and these constitute more than two-thirds of the earth's people – are much less fortunate. They may have little or no shelter and inadequate food. Their health is poor, they cannot read or write, they are unemployed, and their prospects for a better life are bleak or uncertain at best". Perhaps, over one-fifth of the world population lives in a state of absolute poverty. The great disparities of income which have persisted over a long time raise questions like: What factors are responsible for the great difference in the wealth of nations ? Can the world peacefully survive with poverty in the midst of plenty ? What steps can be taken by poor countries to improve their living standards ? How can economic principles and theories contribute to a better understanding of the development process ? Prof. Samuelson quotes, "economics of development seeks to address itself to questions like these, for "one of the most challenging problems of the next quarter-century is the problem of poor societies still striving for development".

The theme of the World Development Report, 1991 was *The Challenge of Development*. It begins thus: *Development is the most important challenge facing the human race. Despite the vast opportunities created by the technological revolutions of the twentieth century, more than 1 billion (i.e. 100 crores) people, one-fifth of the world's population, live on less than one dollar a day - a standard of living that Western Europe and the United States attained two hundred years ago.*

It is not that the study of economic development was a neglected area of economics. Right from Adam Smith to Marx and Keynes, economists have given a thought to economic development. But their interests centered round static problems. Again, their analysis related to the socio-economic framework of Western European nations. As such, "in the advanced countries, there has been a tendency to take economic development for granted - as something that takes care of itself and to concentrate on the short term oscillations of the economy", as pointed out by Prof. Ragnar Nurkse. Even Prof. W.C. Mitchell's remark (in *Business Cycles* published in 1927) that "Few problems are more fascinating, more important, or more neglected than the rates at which development proceeds in successive generations in different countries," went unheeded for almost two decades. This might be due to the fact that the Great Depression of the 1930's and the War economy of the 1940's diverted economists' attention to more immediate short-term economic problems. The Keynesian analysis concerned itself with cyclical unemployment and the implied fear of secular stagnation. These two inter-related problems have been woven into the more general discussion of economic growth which became a major topic of post-Keynesian economic discussion. Maintaining a steady pace of development became the concern of the rich countries; however, accelerating the pace of development became a much more pressing problem with the poor countries.

The post-war years witnessed the emergence of independent nations. Most of these erstwhile colonies of the rich countries wanted rapid economic development for ameliorating the lots of their poverty-stricken masses. A growing awareness of the unjust world economic order made the poor nations raise their voice-which became the voice of the *third world*. Moreover, even the rich countries realised that their prosperity could not continue if the third world remained undeveloped. And *economics of development* came to the forefront.

## 1.2 Basic Characteristics of the Indian Economy as an Emerging Economy

While elaborating the meaning of the term *emerging economies*, we saw how an emerging economy is known by its characteristics. The Indian economy, too, displays a number of characteristics which proclaim that the Indian economy is a emerging economy. Let us take note of such characteristics found in respect of the Indian economy.

It is necessary to note that the characteristics of the economy we are going to discuss below are *based on a new look towards the Indian economy*, during the post-economic-reforms period and during the new era of globalization. These characteristics, therefore, find a new perspective with new parameters and indices which were not available earlier.

**1. A Dualistic Economy:** There are four key elements of dualism. The characteristic of dualistic economy is found in India, as well. The modern sector of the Indian economy is an urban-based market economy; while the traditional sector is that of a subsistence economy. This sector is unorganised, has little access to modern infra-structure and is characterised by low productivity.

The dualism is not limited to any one type of economic activity. It embraces most sectors of the economy. Take the case of agriculture: some plantations and farms are managed professionally with modern methods of production, accounting and marketing. At the same time, the vast area of agriculture follows traditional methods. Out of 10.9 crores of operational holdings (1991), 59% are below 1 hectare and another 19% are between 1 and 2 hectares. By 2010-11 the number of these holdings increased to 24.7 million and the area operated by them increased to 35.1 million (22.1% of total area). All these small land-holders, majority of whom are dry farmers, have no access to modern amenities. In the industrial sector, alongwith modern industries, there exist a number of cottage and village industries. In the transport sector, there are planes, trains and buses and cars alongwith bullock-carts and wheel-barrows and animals used for transport, donkeys, buffaloes, horses, camels and elephants. In finance, indigeneous bankers and money-lenders co-exist with modern banks. And a striking feature is that the modern sector is organised while the traditional one is unorganised. Going by the elements of dualism in India, too, we find that –

- (i) Small enclaves of modern industries co-exist with traditional industries;
- (ii) The dualism has continued to exist over the last 50 years;

- (iii) The gap between the two sectors appears to be widening; and
- (iv) The modern sector has no 'spread effects' on traditional sector, i.e., it does not elevate the traditional sector.

It must be noted that this picture is underlying a change during the current decade. Though all other features of dualism do exist, the unorganized sector is gathering strength due to betterment of infrastructure and connectivity strengthened by cell phones.

**2. Widespread Poverty:** Poverty is **not** a characteristic of an emerging economy. However, it acts as a stumbling block and as a stigma on an emerging or developing economy. Unless this problem is squarely faced, any claim to emerging power is futile. Hence, let us take this problem in our stride. "Poverty is pronounced deprivation in well-being", according to the World Development Report, 2000-01. This very simple but very important definition of poverty reflects the current view of poverty. Poor people are people who are deprived of attaining their own well-being. In other words, poverty is a multi-dimensional deprivation which severely restricts what *Amartya Sen* calls the "capabilities that a person has ..... to lead the kind of life he or she values". All those who are deprived of opportunities to attain their own well-being are therefore living in poverty. This broader view of poverty shows several dimensions of poverty such as:

- (a) Income poverty or material deprivation,
- (b) Deprivation in health and education,
- (c) Vulnerability and exposure to risks, and
- (d) Voicelessness and powerlessness.

Let us find out what the Indian economy has to say on each of these counts.

**(a) Income Poverty:** Income level or level of consumption expenditure, per capita is used to find out the number and percentage of people below the poverty line. The poverty line is determined by defining the minimum level of consumption expenditure, as a critical cut-off point.

Indian poverty is predominantly in the rural areas. More than 75% of the Indian poor live in rural areas. The latest detailed study was undertaken by the Expert Group headed by Dr. D.T. Lakdawala. According to the estimates of this group, 56.4% of the rural population in India lived below poverty line in 1973-74. This percentage came down to 37.3% in 1993-94. In Urban areas, in 1973-74, 49.2% lived below poverty line; while in 1993-94, this percentage declined to 32.4%. According to the projections made by the Planning Commission, in 1996-97, 29.2% Indians lived below poverty line. However, according to the World Bank, in 2000, 35% Indians lived below international poverty line.

A characteristic of poverty in India is that there are wide variations state-wise incidence of poverty and the progress in reducing poverty is also uneven. Thus, in 1993-94, rural poverty varied from 20% in Punjab and Harayana to 63% in Bihar; while urban poverty varied from 12% in Assam to 43% in Orissa.

The latest estimate of poverty are available for the year 2011-12. These estimates have been made by Tendulkar Committee methodology by the NSSO and its 68<sup>th</sup> round (2011-12). During a period of 7 years the incidence of poverty declined from 37.2 per cent to 21.9 per cent in 2011-12 for the country and the number of rural poor declined significantly.

**(b) Health and Education:** Healthy living and access to education are by themselves very important goals for human development. Besides, they enable people to overcome material or income poverty.

For judging the health of people, various indicators are used. Life expectancy at birth in India in 2007, was 64 years for males and 67 years for females. In advanced countries, it is between 75 and 79 years for males and between 80 and 84 years for females. Infant mortality rate, per 1000 live births, in India, was 55 in 2007. Maternal mortality rate during 1990-98, per 100,000 live births in the U.S., U.K., Switzerland and Japan was 8, 7, 5 and 8 respectively; while in India during the same period, it was 410. During 1990-96, only 16% Indians had access to sanitation and even in urban areas, only 46% people have access to sanitation. (All these figures are from the World Development Report 2000-2001). The percentage of under weight children (moderate and severe) in rural areas varies between 30% in Kerala and Nagaland to 64% in Bihar; while in urban areas the same varies between 22% in Mizoram and 50% in Madhya Pradesh (India Development Report, 1999-2000 p. 291).

During 2002-06, the life expectancy among males is 62.6 years and among females it is 64.2 years and overall life expectancy is 63.5 years. In 2000-06, 178 million children under five were underweight. Population not using improved water sources was 11% in 2006. 375 million persons were living under insanitary conditions. 527 million individuals were without medical cover. The proportion of undernourished people in India in 2004 was 20%. Control of diseases and improvement in hospital facilities has contributed to improvement in survival rate.

As for education, gross enrolment and literacy rates serve as indicators. According to the Economic Survey (1999-2000), Gross Enrolment Ratio, in classes 1 to 5 stood at 92% in 1998-99. For females it was 82%. The literacy rate for the same year was 62%. However, according to the Census of India (2001), the prevalence of illiteracy among females was a cause of concern.

The high illiteracy percentages among females (2001) in Rajasthan (56%), Bihar (67%), U.P. (58%) and M.P. (50%) were really alarming. In 1998-99, according to the Economic Survey, the Gross Enrolment Ratio for girls was 61% in Bihar, 75% in Rajasthan, 49% in U.P. and 79% in Orissa. Universalisation of primary education, it appears, still remains a far cry !

The literary rate has improved from 52.2 percent in 1991 to 64.8 per cent in 2001 and to 74 percent in 2011. Male literacy has improved from 64.1 percent in 1991 to 75.8 per cent in 2001 and 82.14 per cent in 2011. Similarly female literacy improved from 39.3 percent in 1991

to 52.1 percent in 2001 and 65.5 percent in 2011. This has been the highest recorded improvement (2001-2011).

The right of children to Free and Compulsory Education (RTE) Act 2009 was enacted by the centre to increase the quality as well as accessibility of elementary education in India in April, 2012. Sarva Shiksha Abhiyan (SSA) is the designated scheme for implementation of the RTE Act.

**(c) Vulnerability:** The dimension of poverty connotes the risk of falling into income and bad health, poverty etc. because of insecurity and lack of protection from violence, crime, natural disasters etc.

The plight of agricultural labourers in rural areas and those engaged in informal sector in urban areas is worst because they can avail of no protection either from income poverty or from health disasters.

For measuring vulnerability various indicators are suggested but so far they are not tried on a world-wide basis. Basically fluctuations in income and exposure to health risks can be faced squarely if the households have diverse sources of income, own income-earning assets, good education, social security etc. In the absence of these, the households became vulnerable. In respect of the Indian social classes mentioned above, the vulnerability is too obvious to need any further proof. It is more accentuated in respect of women.

**(d) Voicelessness and Powerlessness:** How far people have a voice in decisions that influence their own lives ? Are they cared for ? Do they participate in the decision-making process ? Various institutions like co-operative societies, banks, panchayats, trade unions, schools, industrial and consumer co-operatives etc. are expected to be governed democratically, and have to be accountable to the people. By organising group discussions among the poor, one can find out their ratings of these institutions. However, in India, we know that even the well-educated and well-earning people are voiceless and powerless in most of the institutions. To that extent, they too can be termed *poor* ! Millions upon millions of semi-educated masses who are harassed rather than cared for by these institutions are decidedly poor.

**3. Predominance of Agriculture:** Agriculture, animal husbandry, poultry, dairy and such other allied occupations alongwith fisheries, forestry, quarrying etc. constitute *primary sector*. Primary sector industries are extractive industries i.e. they involve 'extraction' from Nature. They do not need sophisticated processes and they have been human occupations for thousands of years. In the process of evolution of economic activity, primary sector was the first to be developed. Secondary sector emerged next. Industry is the main component of the *secondary sector*; while the *tertiary sector* is known as the service sector. In course of

development, first the *secondary* sector and then the *tertiary sector* becomes dominant. What this means is that the relative significance of primary, secondary and tertiary sectors goes on shifting from the first to the next sector. By 'significance' we mean the place or importance in the national economy. This can be judged by – (a) the contribution of each sector to the Gross Domestic Product, and (b) the percentage of gainfully employed persons engaged in each of these sectors.

In India, as in respect of all low-income economies of the world, taken together, agriculture contributes a little more than one-fourth of the national product. The share of agriculture in India's GDP is 28%, while the world average for low income economies is 27%. During 2012-13 the share of agriculture is 13.6 percent of GDP.

Predominance of agriculture is more emphatically borne out of the fact that out of about 39 crores of people gainfully employed, in India, in 1998, 61% were employed in the agricultural sector. The percentage of people engaged in agriculture (out of total employment) is just 2% in UK and USA and 5% in Japan. It is thus clear that both from the point of view of its share in the national income as well as its share in total gainful employment, agriculture in India occupies an important position. It is also clear that as the economy develops, the importance of agriculture (and of all other primary occupations) goes on diminishing, so that in a developed economy, agriculture contributes a very little percentage share to the country's income as well as employment. It should, however, be noted that 'predominance' should not be taken to mean that agriculture is highly developed. Here, too, low productivity prevails. In India, in 2008, about 55 per cent of the working population was engaged in agriculture and its allied activities and it contributes about 20% to national income. In 2010, it is 54.7 percent.

Normally, shift of working population from primary to secondary and then tertiary sectors is a feature of development. In India, agriculture continues to be dominant and unless agricultural productivity improves, economic development would not be smooth.

**4. Low levels of Per Capita Income:** The emerging economies are marked by low levels of living and these low levels are shown by various indicators. A reasonable standard of living is expected to be available to a human being and its absence means low level of living. It is important to remember that the low level is *not* in comparison to rich countries as such, it is low in relation to the richer sections in the same country. The most standard indicator of low level of living is *low per capita income*.

One prominent characteristics of India as an emerging economy is the existence of low per capita income. The per capita income of India in the year 2012 was \$ 1530.

**Table 1.1: Per Capita GNI at Market Prices****(In US Dollars)**

<b>Country</b>	<b>(2007) Exchange Rate Basis</b>	<b>Purchasing Power Parity Basis</b>
(a) Switzerland	82,730	56,240
(b) USA	50,120	50,610
(c) Japan	47,870	36,290
(d) Germany	44,010	41,890
(e) U.K.	38,250	36,880
(f) India	1,530	3,840
(g) China	5,740	9,210

[**Source:** The World Bank Development Indicators (2013). Datt Sundharam, 70<sup>th</sup> Edition]

**5. The Challenge of Population Growth:** One of the important characteristic of developing economy in India is its ever rising population. The growth rate of population which was about 1.31 per cent p.a. during 1941-50 has risen to 1.93 per cent during 1991-2001. The important reason for the rise in population is the steep fall in the death rate from 49 per thousand during 1911-20 to 7.6 per thousand in 2005.

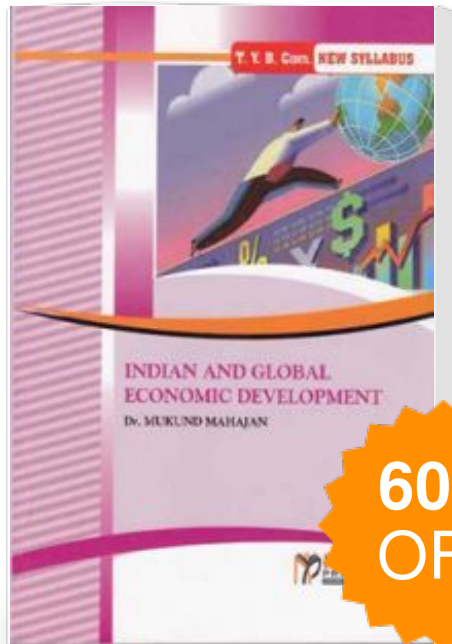
The population of India is 121 crores (Approx.) according to 2011 census.

**Table 1.2: Growth of Population in India**

<b>Census Year</b>	<b>Population in Millions (Mn)</b>	<b>Increase or decrease (in millions)</b>	<b>Percentage Increase or Decrease</b>
1891	236		
1901	236	0.0	0.0
1911	252	+16	+5.7
1921	251	-1	-0.3
1931	271	+28	+11.0
1941	319	+40	+14.2
1951	361	+42	+13.3
1961	439	+78	+21.6
1971	548	+109	+24.8
1981	683	+135	+24.7
1991	846	+161	+23.9
2001	1029	+183	+21.5
2011	1210	+181	17.64

[**Source:** Datt Sundharam, 70<sup>th</sup> Edition]

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