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INDIAN ECONOMY

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GS-III

INDIAN ECONOMY

Mains Harvest

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MESSAGE FROM THE DIRECTOR

Dear Aspirant,

This book is dedicated to YOU, the untiring civil service aspirant who has the drive and commitment to persevere towards clearing this exam which is considered as one of the toughest exams in the world.

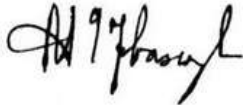
We congratulate you on choosing this book for “**Indian Economy**”. Our attempt here is to simplify important concepts without losing the key points. Hence, we hope you will find this book useful in your civil services journey.

About this book

This book is a distillation of the expertise of the faculty at Officers IAS academy, explained in simple and easy to understand language. What you get to study in this book has been painstakingly collated by our faculty through their years of teaching and mentoring thousands of aspirants.

A strong zeal from you to clear this exam combined with our coaching and textbook will, I am sure help you scale great heights.

I wish you the very best in the most important endeavour of your life.



R. A. Israel Jebasingh

(IAS, 2004 Batch All India Rank 59)

Director of Officers IAS Academy

HOW TO USE THIS BOOK?

Hello Aspirant!

There is a subtle difference between putting in effort and putting in the right and focussed effort. That difference could determine whether you get into the civil services or not! This statement becomes highly relevant during the UPSC Main Examination stage.

Aspirants know that every mark scored or missed in the Main examination determines their presence as well as their place in the All-India Rank list. Unlike the Preliminary examination, Main exams are fairly predictable. But with Mains, completing the examination on time becomes the biggest challenge.

Even with persistent efforts, aspirants generally tend to struggle in completing the Mains Syllabus. And even when the syllabus is covered, there is a struggle in recollecting appropriate points during the examination.

Such challenges are faced by all UPSC Mains Candidates. This is because of the sheer mindboggling number of topics, dimensions, and links with current affairs that aspirants have to sift through in their mind before writing an answer – something that is indeed a herculean task.

We in the R&D team of the Officers IAS Academy, have been pondering over this challenge, and have found a solution.

Our R&D team spent a year meticulously combing through the *past 47 years'* Mains General Studies question papers, to identify all possible topics and dimensions ever covered for each subject in an UPSC Main examination. Our researchers, then set out to prepare a series of books for each of the 'Main exam subjects' (pertaining to GS1, GS2, & GS3) where all relevant content is covered in a scientific and precise manner. Aspirants can confidently use these books to 'complete' the UPSC Main Exam syllabus effectively and efficiently.

Please note, we do not advocate the use of these 'Mains Harvest' books as 'Standard' sources. However, instead of reading endless number of books for the UPSC preparation, aspirants can focus on the standard books (NCERTs) for foundational knowledge and then devote the rest of their time in studying the Officers IAS Academy's Mains Harvest books.

For you, dear aspirants, we have practically 'harvested' the 'essence' of the UPSC main examination to produce the 'Mains Harvest' book series. Use them well!

Thanking and wishing you all the very best in your preparations,

R&D Team,

Officers IAS Academy, Chennai.

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INDIAN ECONOMY & ISSUES RELATING TO PLANNING, MOBILIZATION OF RESOURCES, GROWTH, DEVELOPMENT & EMPLOYMENT

1) Indian Economy: An Overview

Evolution

- The Indian economy was in **distress at the brink of the country's independence**. Being a colony, she was fulfilling the development needs not of herself, but of a foreign land.
- British rulers never made any significant changes for the benefit of the social sector, and this hampered the productive capacity of the economy. During Independence, **India's literacy was only 17 percent, with a life expectancy of 32.5 years**.
- Therefore, once India became independent, systematic organisation of the economy was a real challenge for the government of that time. The need for delivering growth and development was in huge demand in front of the political leadership - as the country was riding on the promises and vibes of national fervour. Many important and strategic decisions were taken by 1956, which are still shaping India's economic journey.
- Today India is ranked the **fifth largest economy**, and **third largest in terms of Purchasing Power Parity (PPP)**.
- The Indian economy is estimated to touch USD 3.5 trillion mark by March 2023. The GDP per capita in India was **\$2,301 USD** in 2022.

Top Performing Sectors of Indian Economy

- The adoption of the **New Economic Policy in 1991** saw a landmark shift in the Indian economy, as it **ended the mixed economy model and license raj system** - and **opened the Indian economy to the world**. An overview of the top performing sectors of the Indian economy is given below -

1. Agricultural Sector:

- One of the most important sectors of the Indian economy remains Agriculture. Its **share in the GDP of the country has declined** and is **currently at 14%**. However, **more than 50% of the total population** of the country is **still dependent on agriculture**.

2. Manufacturing Sector:

- The manufacturing sector is the **second largest contributor to India's GDP after the Services sector**.
- However, if India aims to **raise its share of manufacturing in GDP to around 25%**, the industry will have to significantly step up its **research and development expenditure**.
- The quantum of value addition has to be increased at all levels and the government needs to offer attractive remuneration to motivate people to join the manufacturing sector.

3. Services Sector:

- The sector that benefited most from the New Economic Policy was the services sector. **Banking, Finance, Business Process Outsourcing** - and most importantly **Information Technology services** - have seen double - digit growth.
- **60 percent of the GDP contribution comes from the services sector**.
- India, with its huge **demographic dividend potential**, has emerged as the **IT hub of the world**.

2) Planning in India

About

- Economic planning is the process in which the limited natural resources are used skillfully so as to achieve the desired goals. The concept of **economic planning in India or five year plan** is derived from **Russia (then USSR)**.
- India has launched **12 five year plans** so far. Twelfth five year plan was the **last one**. The government of India has decided to stop the launching of five year plans and it was replaced by **NITI Aayog**.

First Five Year Plan (1951-1956):

- It was based on the **Harrod-Domar Model**.
- Its main focus was on the **agricultural development of the country**.
- This plan was **successful and achieved the GDP growth rate of 3.6% (more than its target)**.

Second Five Year Plan (1956-1961):

- It was based on the **P.C. Mahalanobis Model**.
- Its main focus was on the **industrial development of the country**.
- This plan was **successful and achieved the growth rate of 4.1%**

Third Five Year Plan (1961-1966):

- This plan was also called the '**Gadgil Yojana**'.
- The main target of this plan was to **make the economy independent and to reach a self propelled position**.
- Due to **Indo-China war**, this plan **could not achieve its growth target of 5.6%**

Plan Holiday (1966-1969):

- The main reason behind the plan holiday was the **Indo-Pakistan war & failure of third plan**.
- During this period, **annual plans** were made and **equal priority** was given to agriculture, its **allied sectors and the industry sector**.

Fourth Five Year Plan (1969-1974):

- There are **two main objectives** of this plan i.e. **growth with stability and progressive achievement of self reliance**.
- This plan **failed** and could achieve a **growth rate of 3.3% only**, against the target of 5.7%.

Fifth Five Year Plan (1974-1979):

- In this plan **top priority was given to agriculture, next came industry and mines**.
- Overall this plan was **successful**, which achieved the **growth rate of 4.8%** against the target of 4.4%.
- The draft of this plan was prepared and launched by **D.P. Dhar**. This plan was **terminated in 1978**.

Rolling Plan:

- This plan was started with an **annual plan for 1978-79** and as a **continuation of the terminated fifth year plan**.

Sixth Five Year Plan (1980-1985):

- The basic objective of this plan was **poverty eradication and technological self reliance**. **Poverty eradication (GARIBI-HATAO)** was the **motto**.
- Its growth **target was 5.2% but it achieved 5.7%**.

Seventh Five Year Plan (1985-1990):

- Objectives of this plan included the establishment of a **self-sufficient economy and opportunities for productive employment**.
- For the first time, due to the pressure from the private sector, the **private sector got priority over the public sector**.
- Its **growth target was 5.0% but it achieved 6.0%**.

Annual Plans:

- The Eighth five year Plan could not take place due to the **volatile political situation at the centre**. So **two annual programmes** were formed in 1990-91 & 1991-92.

Eighth Five Year Plan (1992-1997):

- In this plan the **top priority** was given to **development of the human resources i.e. employment, education and public health**.
- During this plan, the **New Economic Policy of India** was introduced.
- This plan was **successful** and got an **annual growth rate of 6.8% against the target of 5.6%**.

Ninth Five Year Plan (1997-2002):

- The main focus of this plan was **“growth with justice and equity”**.
- This plan **failed to achieve the growth target of 7% and the Indian economy grew only at the rate of 5.6%**.

Tenth Five Year Plan (2002-2007):

- This plan aimed to **double the per capita income of India in the next 10 years**.
- It aimed to **reduce the poverty ratio to 15% by 2012**.
- Its **growth target was 8.0% but it achieved only 7.2%**.

Eleventh Five Year Plan (2007-2012):

- Its main theme was **“faster and more inclusive growth”**.
- Its **growth rate target was 8.1% but it achieved only 7.9%**

Twelfth Five Year Plan (2012-2017):

- Its main theme is **“Faster, More Inclusive and Sustainable Growth”**.
- Its **growth rate target is 8%**.

Significance

- Here it can be concluded that since Indian Independence the five year plans of India played a very prominent role in the economic development of the country. These plans had guided the Government as to how it should utilise scarce resources so that maximum benefits can be gained.

NITI Aayog

- The **Planning Commission was replaced by the NITI Aayog on 1st January, 2015**.
- NITI (National Institution for Transforming India) Aayog will monitor, coordinate and ensure implementation of the accepted sustainable development goals.
- It aims to **foster cooperative federalism** through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- NITI Aayog serves as a **knowledge hub** and monitors progress in the implementation of policies and programmes of the Government of India.

How is NITI Aayog different from the Planning Commission?

- **Two key activities** of the Planning Commission had been to **prepare and implement the Five Year Plans** and to **allocate financial resources** to states. **Neither of these activities forms a part of the mandate of Niti Aayog**. The annual resource allocation exercise that brought state chief ministers to the doorstep of the Planning Commission is now a thing of the past.
- Among many functions that Niti Aayog performs, **three stand out**:
 - promotion of **cooperative, competitive federalism**;
 - assisting the central government in **policy making**; and
 - serving as the **government's thinktank**.

3) Evaluation of Economic Planning in India

Objectives of Planning in India

- Economic growth
- Increase in employment
- Reduction in inequality of income
- Reduction in poverty

- Modernization of the economy
- Ensuring social justice and equality.

Achievements of Economic planning

1. Achievements in Economic Growth:

- During the **first 30 years of planning** the **per capita income grew at a very slow rate of 1.2 per cent per year**. Recently this growth rate has increased to some extent.
- Coming to agriculture, the **food grain production has gone up** from 51 million tones at the beginning of the first plan to 257.4 million tones in 2011-12.
- In terms of **industrial development**, a major achievement has been the **diversification of Indian industries**. There has been expansion of transport and communications, growth in generation and distribution of electricity and considerable progress in steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products.

2. Creation of Infrastructure:

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

3. Development in Education:

- One of the brightest areas of achievements of planning has been the development in education in India.
- When India got independence from British rule, the country was left with an overwhelming population of people who could not read or write. **Just about 2 in 10 Indians were literate** back in 1950. In 2022, the **figures have nearly reversed**. From a literacy rate of mere **18.3% in 1951**, India has come a long way in establishing a well-educated nation.
- The **literacy rate of Indian women** has grown over the years. According to the **World Bank report**, only 1 of 11 girls was literate at the time of India's independence, about nine percent. And at present, the **women's literacy rate** has jumped to **77%** while **India's male literacy rate** stands at **84.7%**.

4. Development of Science and Technology:

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

5. Expansion of Foreign Trade:

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

Drawbacks/Failures of Planning

1. Failure to Remove Poverty and Inequality completely:

- Even after more than sixty years of planning, India has not been able to remove poverty completely. **More than 240 million people are still under absolute poverty** according to official estimates. The situation is **worse in rural areas**.
- Similarly, there is **no significant improvement in the distribution of income and asset holding** resulting in the **existence of inequality**.

- According to **Oxfam International's** study, **the richest 1% in India now own more than 40% of the country's total wealth**, while the **bottom half of the population together share just 3% of wealth**.

2. Problem of Unemployment Persists:

- In spite of growth in income and output, India's employment situation has not improved much. Due to faster growth of population and labour force the situation has worsened further.
- According to official estimates **India's unemployment rate is around 7.45% (2023)**. There is also a huge backlog of unemployment due to lack of creation of the required amount of jobs every year.

3. Failure to Curtail Corruption and Black Money:

- Existence of rampant corruption in various public offices is a matter of grave concern in India.
- Various forms of corruption include paying or accepting bribes, nonpayment of tax to the government, political influence to get contracts, secret understanding among sellers to increase price etc.
- Corruption has given rise to black money which is not accounted for anywhere but very much in circulation. Black money creates **inflation and pressure** in society. It is also the **root cause of inequality in distribution of income** as people who possess black money grow richer at the cost of the common citizen.

4) New Economic Policy, 1991

About

- In 1991, India faced its worst economic crisis and was on the brink of a sovereign default. The **1990-91 Gulf War** had led to a sharp increase in oil prices and a fall in remittances from the Indian workers working overseas. This led to a **sharp depletion in India's forex reserves** — at less than \$6 billion, and this was just enough to meet around two weeks of the country's imports.
- The **deteriorating fiscal deficit situation** and **burgeoning foreign debt levels** did not help the government either. A **fiscal deficit of 8 per cent of gross domestic product (GDP)** and a **current account deficit of 2.5 per cent of GDP** all added to the government's woes. Double-digit inflation numbers also added to the burden of the common man.

Immediate measures to mitigate the crisis

- **Devaluation of the rupee:** The government, along with the Reserve Bank of India (RBI), undertook a **two-step devaluation of the rupee**, which was first devalued against major currencies by around **9 per cent** on 1 July 1991, followed by another devaluation of **11 per cent** two days later. This was done with the aim of **making Indian exports more competitive**.
- It also set the tone to free the determination of rupee value in the foreign exchange market from government control i.e. **flexible exchange rate system**.
- **Pledging gold holdings to shore up forex reserves:** The central bank pledged India's gold holdings with the Bank of England in four tranches from 4-18 July 1991 raising around \$400 million through this route.
- Prior to this, in the midst of national elections, the State Bank of India sold 20 tonnes of gold on 16 May to the Union Bank of Switzerland or UBS to raise around \$200 million.
- The government had also got **emergency loans from the International Monetary Fund** in two tranches totalling around \$2 billion earlier in the year.

Structural Reforms

- **Trade policy:** As part of its efforts to boost exports, the Indian government announced a **new trade policy** that sought to bring a change in the licensing process.
- Taking into account the boost to exports from the massive devaluation of the rupee, the government **did away with export subsidies**. It introduced the **concept of tradeable exim scrips** granting such scrips to exporters for their use or for sale. Such scrips were calculated

based on the value of exports. The policy also **did away with the need for routing imports through state-owned firms**. The **private sector was allowed to make its own imports**.

- **New industrial policy**: The game-changing new industrial policy was unveiled on the eve of **Budget 1991**. It proposed some massive changes in the way India treated its industries and foreign investment by **moving away from a licence raj regime**.
- The policy **relaxed some of the provisions in Monopolies and Restrictive Trade Practices Act** to facilitate easier entry and restructuring of businesses by facilitating mergers and amalgamations. The policy **ended the public sector monopoly in many sectors** and announced a policy of automatic approval for foreign direct investment up to 51 per cent as against the earlier cap of 40 per cent for foreign equity investments.
- **Public sector monopoly was restricted to only a few sectors** important from the point of view of national security. It also abolished industrial licensing for all industries barring 18 irrespective of levels of investment.
- All these changes made it easier to do business in India and saw a deluge of foreign goods and investments flooding the Indian market in the subsequent years.
- **Budget 1991-92**: Presented by Dr. Manmohan Singh on 24 July, the budget was a continuation of the reform measures undertaken by the Indian government over the last few weeks. There were some difficult measures taken.
- Faced with a rising fiscal deficit, the budget **increased corporate tax rates by 5 percentage points to 45 per cent** and **introduced the concept of tax deducted at source** for some financial transactions like bank deposits.
- It also **increased the prices of cooking gas cylinders, fertilisers and petrol and removed the subsidy on sugar**.
- It opened up mutual funds to the private sector and relaxed rules for investment by non-residents.
- **The reform push continued after budget**: Over the next eight months, the government announced many steps to continue the reforms momentum and pull India out of the crisis. These included a **second trade policy package** to boost exports and a **package for developing small firms**.
- The government also announced a **committee under former RBI governor M. Narasimham** for proposing financial sector reforms. This was followed by the constitution of another committee for recommending tax reforms under well-known public finance **economist Raja Chelliah**.

5) Issues Pertaining to Growth

Major Issues

- Low level of national income and per capita income
- Vast inequalities in income and wealth
- Predominance of agriculture
- Massive unemployment
- Poor educational standards
- Large budget deficit
- Rigid labour Laws
- Poor tax collection rates
- Scarcity of capital and low rate of capital formation
- Underdeveloped infrastructure
- Low level of technology

6) MSME Sector in India

Contribution of the MSME Sector

- MSMEs contribute around **30% to India's Gross Value Added (GVA), 36% to India's manufacturing sector, and 44% to India's exports.**
- Moreover, a significantly large proportion of the MSME sector operates in **rural areas** and **after agriculture**, this sector is the **biggest employment provider in rural areas** and hence crucial for socio-economic wellbeing of rural populace.

Challenges

- However, the MSME sector continues to grapple with various challenges such as
 - low level of technology-in-use,
 - limited access to inputs and credits,
 - unfavourable market environment,
 - falling outside the ambit of formal business and
 - labour regulations.

Government Initiatives

1. Pradhan Mantri MUDRA Yojana:

- Micro Units development and Refinance Agency Ltd (MUDRA) provides **refinance support to Banks for lending to micro units having loan requirement upto 10 lakh.**
- Launched in 2015, it provides its services to small rural and semi urban entrepreneurs outside the service area of regular banks, by using last mile agents.
- The three interventions under the scheme are:-
 - **Shishu:** covering loans upto Rs. 50,000
 - **Kishor:** covering loans above Rs. 50,000 and upto Rs. 5 lakh
 - **Tarun:** covering loans above Rs. 5 lakh and upto Rs. 10 lakh.

2. ASPIRE:

- A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE) was launched to **set up incubation centres and a network of technology centres** for enhancing entrepreneurship across India.
- The main objectives of the scheme are:
 - creation of new jobs and reducing unemployment,
 - grassroots level economic development,
 - promoting entrepreneurship culture in India,
 - facilitating innovative business solutions for meeting the social needs of the people,
 - promoting innovation for further strengthening the competitiveness in the MSME sector.

3. CGTMSE:

- Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE) is another initiative for reviving rural industries and entrepreneurship.
- It **facilitates credit to MSME units through collateral-free credit facility** (term loan and/or working capital) extended by eligible lending institutions to new and existing micro and small enterprises.

4. Stand Up India:

- This scheme is meant to provide **composite loans between Rs. 10 lakh to Rs. 100 lakhs** for setting up **Greenfield enterprises in the non-farm sector** by **SC/ST and women entrepreneurs.**

Conclusion

- MSMEs are the cornerstone of India's economic growth, playing a vital role in job creation, poverty alleviation, and fostering inclusive development. By empowering entrepreneurs and promoting regional development, MSMEs contribute to a more equitable and prosperous society.

7) Digitalization of Indian economy

Background

- India is undergoing a significant transformation driven by the **increasing adoption of digital technologies across various sectors**.
- This digitalization of the Indian economy holds immense potential for growth, development, and inclusion.

Status of Digitalization

- The status of digitalization in the Indian economy is mixed. On one hand, India has made **significant progress in recent years in terms of internet penetration and mobile phone usage**.
- India is now the **second-largest internet user base** in the world and the **largest mobile phone user base** in the world.
- On the other hand, there are still a number of challenges that need to be addressed in order to fully digitize the Indian economy.

Challenges in digitalization:

- **Uneven access to digital infrastructure:** While internet penetration and mobile phone usage have increased significantly in recent years, there is still a significant digital divide in India. Rural areas and poor households continue to have limited access to digital infrastructure.
- **Low digital literacy levels:** A large proportion of the Indian population still lacks the digital skills required to access and use digital services.
- **Cybersecurity concerns:** India is increasingly vulnerable to cybersecurity threats. This is a major concern for businesses and individuals alike.
- **Data privacy concerns:** There is growing concern about the privacy of data collected by businesses and government agencies. This is a major challenge for the digital economy.

Suggestions to improve the status of digitalization in Indian economy

- **Invest in digital infrastructure:** The government needs to invest in expanding digital infrastructure to rural areas and poor households. This will help to bridge the digital divide and ensure that all Indians have access to digital services.
- **Improve digital literacy:** The government needs to invest in improving digital literacy levels among the population. This can be done through education programs, awareness campaigns, and other initiatives.
- **Strengthen cybersecurity:** The government needs to strengthen cybersecurity measures to protect businesses and individuals from cyber threats. This can be done by enacting new laws and regulations, investing in cybersecurity infrastructure, and educating the public about cybersecurity best practices.
- **Protect data privacy:** The government needs to enact laws and regulations to protect the privacy of data collected by businesses and government agencies. This will help to build trust in the digital economy and encourage businesses and individuals to adopt digital technologies.

Conclusion

- By addressing these challenges and taking these steps, the Indian government can help to fully digitize the economy and reap the benefits of digitalization, such as increased economic growth, job creation, and improved efficiency.

8) Trends in Indian Economy

(From 'Indian Economy - A Review' document published by the Ministry of Finance in 2024)
Key Figures

Chart 1: Share of Private Final Consumption Expenditure in GDP

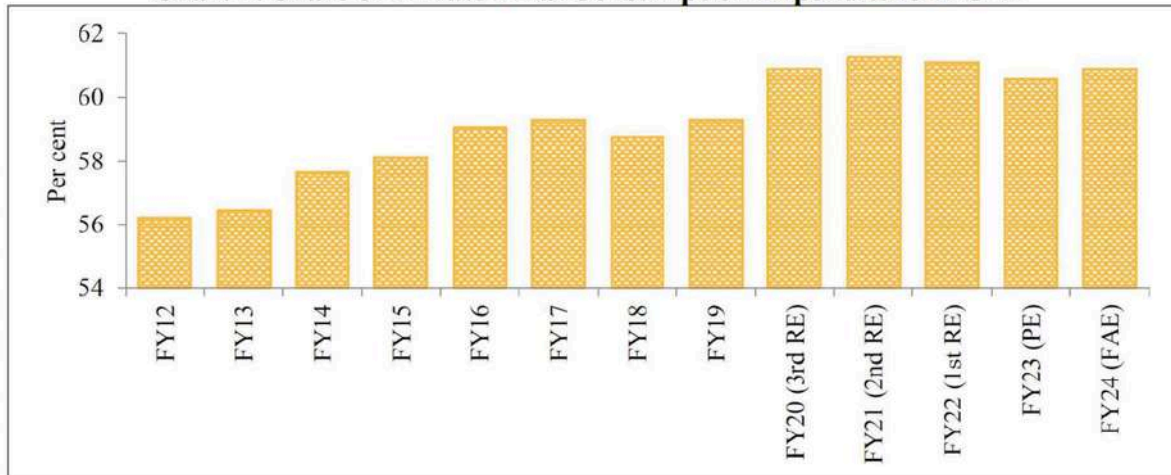


Chart 2: Per Capita Real Gross National Income

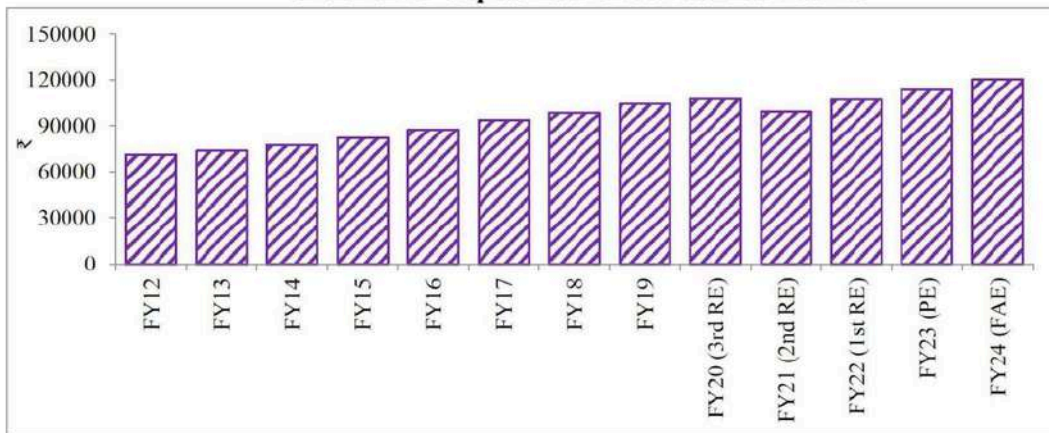
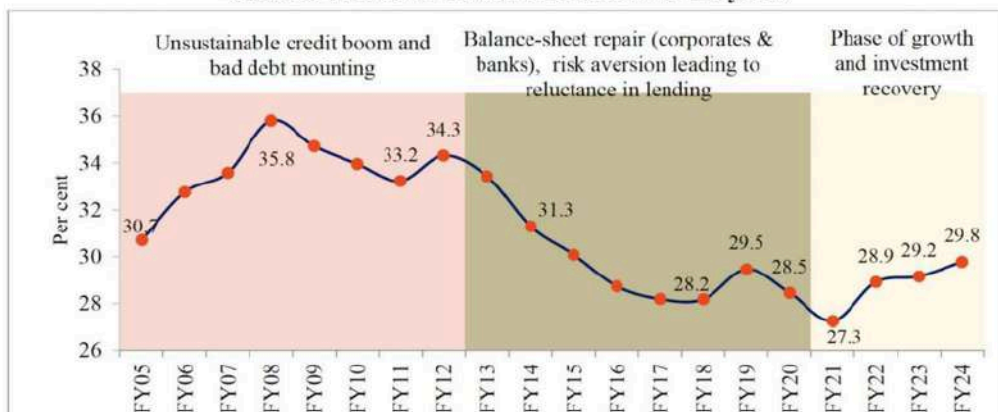


Chart 3-Trends in Investment rate over the years



Note: Investment Rate is the ratio of Nominal GFCF over Nominal GDP

Chart 5: Capital Expenditure by Public Sector (Centre + CPSEs)

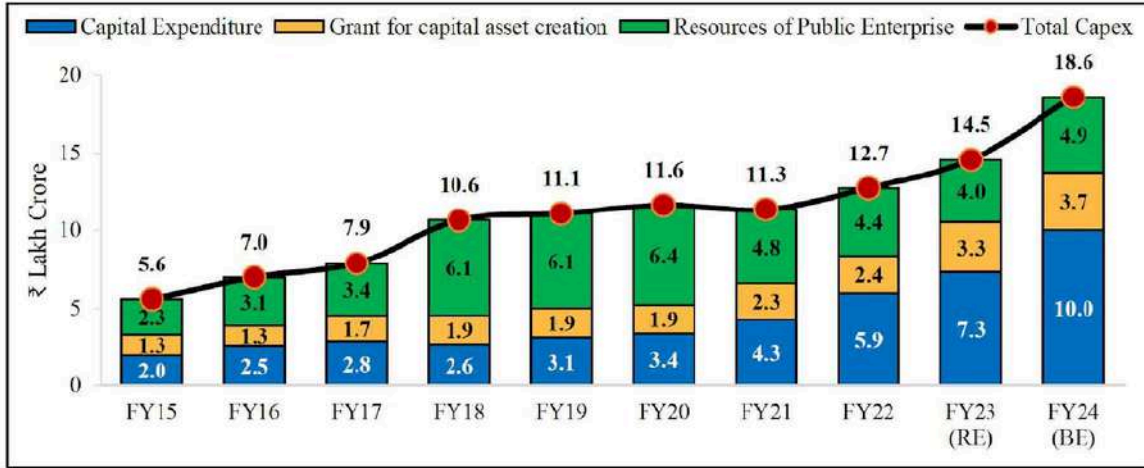


Chart 13: Declining Gross Non-Performing Assets of SCBs (as % of Gross Advances)

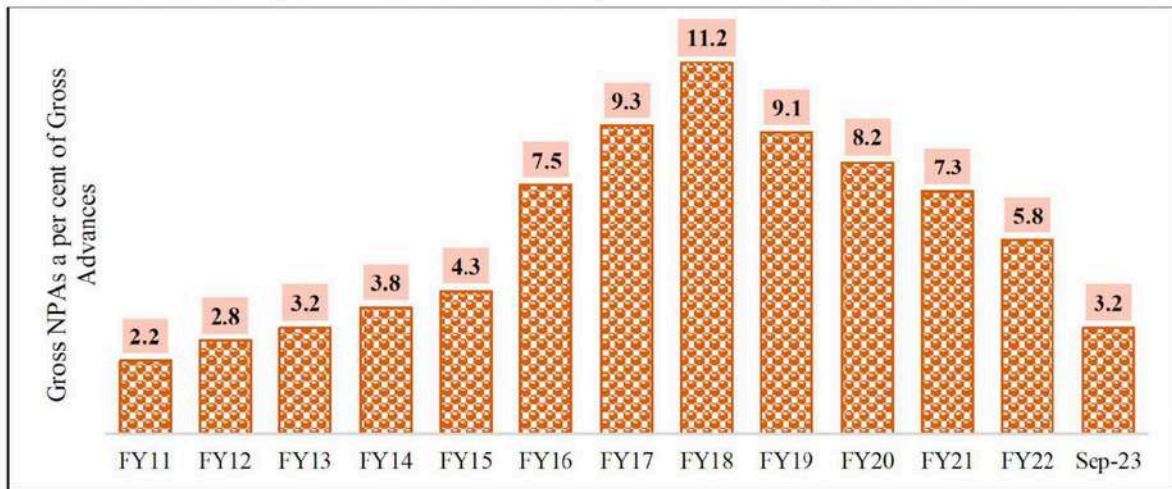


Chart 15: Macro-vulnerability Index⁴⁸ and Retail Inflation (per cent)

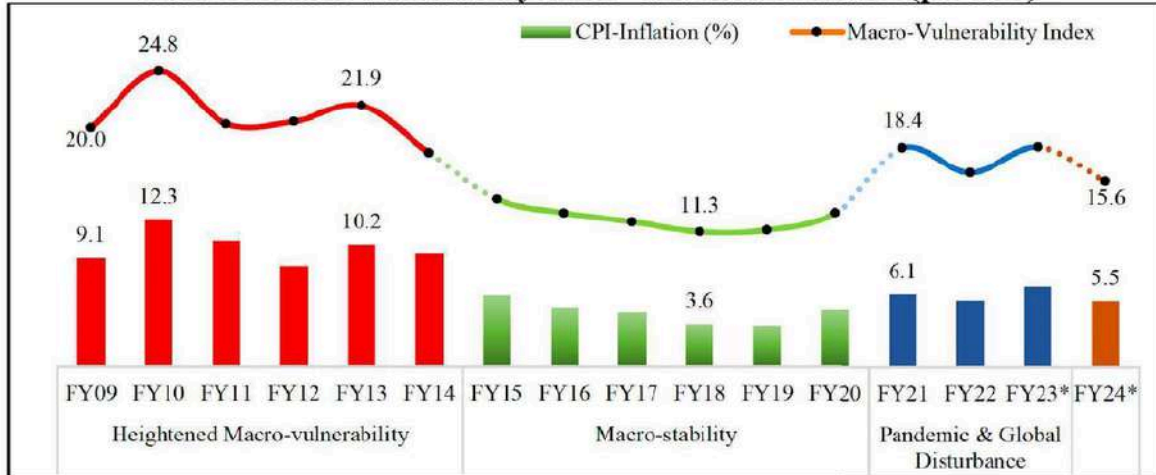


Chart 17: Female Labour Force Participation Rate (rural+urban), usual status, 15 years and above

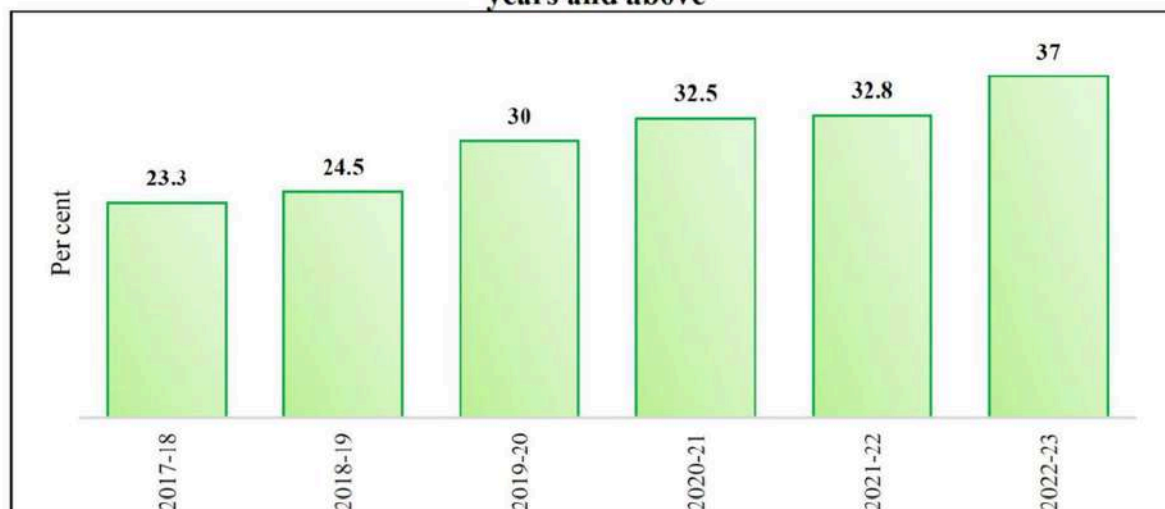
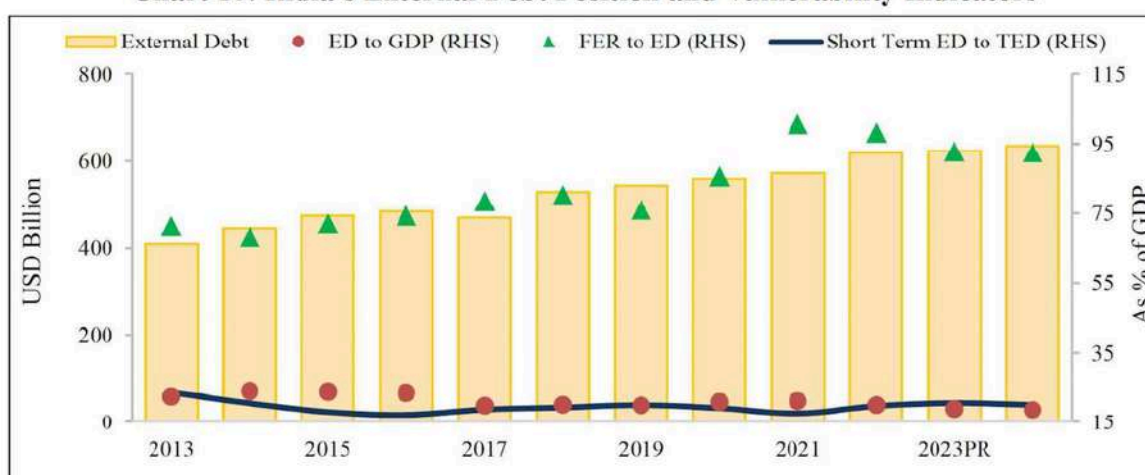


Chart 18: India's External Debt Position and Vulnerability Indicators



Source: RBI; Note: PR - Partially Revised, P - Provisional; ED - external debt, FER - foreign exchange reserves, TED - total external debt

Questions:

1. What are the objectives of New Economic Policy of the Government of India?
2. What measures have been taken under the Five Year Plans to increase employment opportunities in rural areas?
3. Explain the difference between computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015.
4. Faster economic growth requires an increased share of the manufacturing sector in GDP, particularly of MSMEs. Comment on the present policies of the Government in this regard.
5. What is the status of digitalization in the Indian economy? Examine the problems faced in this regard and suggest improvements.

INCLUSIVE GROWTH AND ISSUES ARISING FROM IT

1) Inclusive Growth

Definition

- While **economic growth** (i.e., increased economic output or income) is a well-defined but narrow concept, **inclusive growth** is more than broad-based growth. “Inclusive” carries with it the **notion of nondiscrimination**. Thus inclusive growth can be characterized as broad-based growth that includes nondiscriminatory participation. For growth to be sustainable and effective in reducing poverty, it needs to be inclusive

Challenges in Achieving Inclusive Growth

- The following problems are the major concerns for developing countries like India to achieve inclusive growth.
- They are:
 - (1) Poverty**
 - (2) Employment**
 - (3) Agriculture**
 - (4) Problems in Social Development**
 - (5) Regional Disparities.**

Poverty:

- One of the foremost challenges in achieving inclusive growth in a society is poverty. According to the estimates of the **Tendulkar Committee (2009)**, **22% of the total population** (270 million persons) in India live below the poverty line.
- **NITI Aayog’s National Multidimensional Poverty Index 2021** estimated that **25.01 per cent of the Indian population are multidimensionally poor.**

Employment:

- Employment is considered as one of the big problems for inclusive growth in India. The rising population at a great speed after independence showed its impact on employment. Unemployment became a big worry to the development of the country.

Agriculture:

- Traditionally, India is considered as an agricultural based country.
- Some of the problems in Indian agriculture are:
 - Shrinking of farm size
 - Slow reduction in share of employment
 - Low labour productivity in agriculture and the gap between agri and non-agri is widening
 - Decline in yield growth due to land and water problems
 - Vulnerability to world commodity prices, farmer’s suicides.
 - Disparities in growth across regions and crops, i.e., growth rate declined more in rain fed areas.

Problems in Social Development:

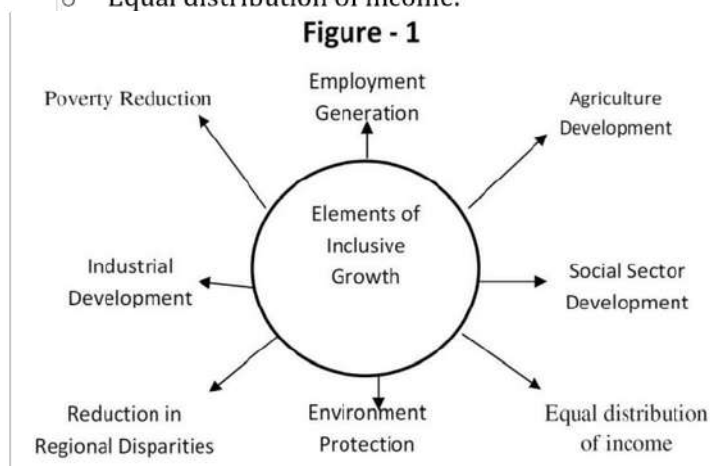
- Social development is also one of the key concerns in inclusive growth.
- Some of the problems in the social sector are:
 - Significant regional, social and gender disparities
 - Low level and slow growth in public expenditures particularly on health
 - Poor quality delivery systems.

Regional Disparities:

- Regional disparities are also a major concern for India due to different cultures and traditions. Traditional cultures, caste system and the rich & poor feelings favoured some specific groups as a result, the regional disparities raised in India before and after independence.

Measures Required

- The interrelated elements of inclusive growth are:
 - Poverty Reduction
 - Employment generation and Increase in quantity & quality of employment.
 - Agriculture Development
 - Industrial Development
 - Social Sector Development
 - Reduction in regional disparities
 - Protecting the environment
 - Equal distribution of income.



Measures Taken by the Government

- The Government of India has stepped up for inclusive growth by launching many initiatives with features that are innovative, flexible and reform oriented such as:
 1. **Rural Infrastructure:** **Pradhan Mantri Gram Sadak Yojana** for rural roads development, **Pradhan Mantri Awas Yojana** for affordable housing, **Pradhan Mantri Ujjwala Yojana** for providing LPG connections to women, **Sansad Adarsh Gram Yojana** for social development of villages.
 2. **Employment:** **Mahatma Gandhi National Rural Employment Guarantee Scheme** to provide at least 100 days of guaranteed wage employment, **Deen Dayal Upadhyaya Grameen Kaushalya Yojana** to achieve the dual objectives of adding diversity to the incomes of rural poor families and cater to the career aspirations of rural youth.
 3. **Education:** **Samagra Shiksha abhiyan** as an overarching programme for the school education sector extending from pre-school to class 12, **various scholarship schemes** for vulnerable sections.
 4. **Health:** **National Health Mission**, **Ayushman Bharat Yojana** to reduce out of pocket hospitalisation expenses, fulfil unmet needs and improve access of identified families to quality inpatient care and day care surgeries, **Mission Indradhanush** to ensure full immunization with all available vaccines for children.

2) Unemployment & its Types

Unemployment

- The term unemployment refers to a **state in which an individual actively seeks employment but is unsuccessful**. It is said to be one of the critical measures of the economy's strength.
- The **unemployment rate** in a country can be found by dividing the **number of people without jobs by the total population included in a nation's labor force**.

Natural Unemployment Rate

- The natural unemployment rate is the **minimum unemployment rate resulting from real or voluntary economic forces**.
- Natural unemployment reflects workers moving from job to job, the number of unemployed replaced by technology, or those lacking the skills to gain employment.

Types of Unemployment

- **Cyclical Unemployment** exists during the downturn phase of the trade cycle in the economy. In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment. It is caused by a deficiency of effective demand.
- **Frictional Unemployment** (Temporary Unemployment) arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, breakdown of machinery, shortage of raw materials etc. The persons who lose jobs and in search of jobs are also included under frictional unemployment.
- **Disguised unemployment** exists where part of the labor force is either left without work or is working in a redundant manner where worker productivity is essentially zero i.e., marginal productivity of the workers is zero.
- **Structural unemployment** is due to drastic change in the structure of the society. For example: rise in demand for mobile phones has adversely affected the demand for cameras, tape recorders etc. So this kind of unemployment results from massive and deep rooted changes in economic structure.
- **Voluntary unemployment** is defined as a situation when workers choose not to work at the current equilibrium wage rate. For one reason or another, workers may elect not to participate in the labour market.

Structural Unemployment in India

- Most of the unemployment in India is structural because of lack of requisite skills and poor education level. Reasons why most of the unemployment in India is structural:
- **Education and skill gap:** The Indian education system is often criticized for being outdated and not meeting the needs of the modern workforce. As a result, many workers lack the skills required for the available jobs.
- **Technology disruption:** Automation and technological advancements are replacing many traditional jobs. For example, the rise of e-commerce has led to a decline in demand for jobs in brick-and-mortar stores.
- **Globalization:** Globalization has led to increased competition from foreign companies, which has put pressure on Indian companies to reduce costs and lay off workers.
- **Changes in consumer demand:** Changes in consumer demand can also lead to structural unemployment. For example, the decline in demand for coal has led to job losses in the Indian mining sector.

Methodology adopted to compute unemployment in India

Different Methodologies

- **NSSO (National Sample Survey Office) Surveys:** The NSSO conducts large-scale sample surveys on employment and unemployment in India. These surveys are crucial in understanding the employment situation in the country.

- **PLFS (Periodic Labor Force Survey):** PLFS was one such survey conducted annually from 2017-18 onwards. The PLFS is a significant source for estimating employment and unemployment in India. It replaced the earlier employment-unemployment surveys conducted by the NSSO. PLFS provides detailed information on labour force participation, employment status, and other relevant factors.
- **Labor Bureau Surveys:** The Labor Bureau of India conducts surveys to collect data on employment and unemployment. The Employment and Unemployment Surveys (EUS) and Annual Employment-Unemployment Surveys (EUS-AEUS) are examples of such surveys.

Questions:

1. Unemployment in India is of many types and therefore a complex issue. Describe the nature of this problem and the measures adopted to deal with it particularly in rural areas.
2. What are the salient features of 'inclusive growth'? Has India been experiencing such a growth process? Analyse and suggest measures for inclusive growth.
3. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements.

GOVERNMENT BUDGETING

1) Budgeting in India

Definition:

- According to **Article 112** of the Indian Constitution, the Union Budget of a year, also referred to as the **Annual Financial Statement**, is a statement of the estimated receipts and expenditure of the government for that particular year.
- The Union Budget keeps the account of the government's finances for the fiscal year that runs from 1st April to 31st March.
- The **Budget Division of the Department of Economic Affairs (DEA)** in the Finance Ministry is the nodal body responsible for producing the budget.

Evolution:

- The Budget was first introduced in India on April 7, 1860 when Scottish economist and politician **James Wilson** from East India Company presented it to the British Crown.
- Independent India's first budget was presented on November 26, 1947 by the then Finance Minister R K Shanmukham Chetty.
- Until 2016, the Union Budget was presented on the last day of February. However, from 2017 the budget has been presented on **February 1 every year**.
- In 2017, the Central Government had **merged the Railway Budget with the Union Budget**, thus ending a practice that had started in 1924 when the country was under British rule.

Types:

- Depending on the feasibility of estimated government expenditure and expected government receipts, budgets are of three types -- **balanced budget, surplus budget and deficit budget**.
 - **BALANCED BUDGET:** A government budget is said to be a balanced budget if the estimated government expenditure is equal to expected government receipts in a particular financial year. Though an ideal approach to achieve a balanced economy and maintain fiscal discipline, a balanced budget does not ensure financial stability at times of economic depression or deflation.
 - **SURPLUS BUDGET:** A government budget is said to be a surplus budget if the expected government revenues exceed the estimated government expenditure in a particular financial year. A surplus budget denotes the financial affluence of a country. Such a budget can be implemented at times of inflation to reduce aggregate demand.
 - **DEFICIT BUDGET:** A government budget is said to be a deficit budget if the estimated government expenditure exceeds the expected government revenue in a particular financial year. This type of budget is best suited for developing economies, such as India. Especially helpful at times of recession, a deficit budget helps generate additional demand and boost the rate of economic growth.

Gender Budgeting:

- Gender Budgeting is an approach to government fiscal policy that seeks to **use a country's budget(s) as a tool to resolve societal gender inequality and promote inclusive development**.
- It is an exercise that applies a **gendered-lens to the allocation and tracking of public funds** to achieve gender equality. It is an outcome-oriented expenditure allocation.
- India started releasing a Gender Budget along with the Union Budget in **2005-06**. Over the last 16 years, India's Gender Budget has increased from Rs 24,241 crore (\$5.5 billion) in 2005-06 to Rs 1,43,462 crore (\$19 billion) in 2020-21, a six-fold increase in absolute terms.



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