

# ECONOMIC DEVELOPMENT AND POLICY IN INDIA

COURSE CODE: B21EC07DC

Undergraduate Programme in Economics

Discipline Core Course

Self Learning Material



**SREENARAYANAGURU OPEN UNIVERSITY**

The State University for Education, Training and Research in Blended Format, Kerala

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# Economic Development and Policy in India

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Semester - VI

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# ECONOMIC DEVELOPMENT AND POLICY IN INDIA

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Semester- VI

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Undergraduate Programme in Economics

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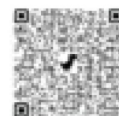
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Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed "blended format," a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The university aims to offer you an engaging and thought-provoking educational journey. The undergraduate programme in Economics is designed to be on par with the high-quality academic programmes offered at state universities throughout the country. The curriculum incorporates the latest methodologies for presenting economic ideas and concepts. It stimulates students' interest in developing a deeper comprehension of the discipline. The curriculum encompasses both theoretical concepts and historical evidence. Suitable emphasis is placed on India's experiences with economic transformation. This would aid learners in preparing for competitive examinations, should they choose to take them. Upon successfully completing the programme, we anticipate that students will be well-equipped to handle key areas within the economics discipline. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university's student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Regards,  
Dr. Jagathy Raj V.P.

01-12-2025

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**BLOCK**

# **Structural Transformation of Indian Economy since Independence**



# UNIT

## Sectoral Composition of GDP

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ get an insight into the historical context of India's economic development since independence
- ◆ know the reasons behind structural changes
- ◆ familiarise themselves with the sectoral shifts in India's economy, including the growth of the service sector

### Prerequisites

India's economic transformation since gaining independence in 1947 has been driven by a dynamic interplay of domestic policy choices, global economic developments, and evolving social priorities. At the time of independence, the country faced the challenge of rebuilding an economy that was largely agrarian, technologically backward, and constrained by minimal industrial capacity and inadequate infrastructure. In response, the early decades witnessed the adoption of a mixed economy model, where the state assumed a leading role in economic planning, industrial development, and investment in heavy industries through an expanding public sector. This approach aimed to promote self-reliance, reduce dependence on foreign capital, and address widespread poverty and unemployment. However, by the late 1980s, structural bottlenecks, fiscal imbalances, and slow growth signalled the need for major policy reforms. The watershed moment came in 1991, when India embraced liberalisation, privatisation, and globalisation (LPG), opening its markets, encouraging private enterprise, and integrating with the global economy. These reforms stimulated significant shifts in the economic structure, including the rapid rise of the service sector, increased foreign investment, modernisation of industries, and a gradual movement away from the predominantly agrarian profile of earlier decades. Over

the years, this transformation has reshaped India into one of the world's fastest-growing economies, although challenges related to inequality, employment, and regional disparities continue to shape its development trajectory.

## Keywords

Sectoral Transformation, Green Revolution, Industrialisation, Industrial Resurgence, Sectoral Contribution, Service Sector, Post Liberalisation, Employment, Urbanisation

## Discussion

### 1.1.1 Change in the Share of Sectoral Composition of GDP since Independence

Since independence in 1947, India has undergone a major economic transformation, shifting from a predominantly agrarian economy to a more diversified one driven increasingly by industry and services. In the early decades, India adopted a mixed economy with strong state-led planning, focusing on building a self-reliant industrial base through public sector enterprises and the Five-Year Plans. By the 1990s, however, economic reforms embracing liberalisation, privatisation, and globalisation reduced the dominance of the public sector, opened the economy to global markets, and encouraged private investment. These reforms accelerated the growth of the service sector, which soon became the leading contributor to GDP and a major source of employment. As a result, India's economic structure shifted decisively from agriculture to a modern, multi-sectoral profile marked by new patterns of production, income, and employment.

### 1.1.2 Agriculture Sector

India's agriculture sector has undergone significant transformations since independence in 1947, evolving from the backbone of the national economy to a sector in gradual decline, contributing around 15% to the country's GDP. This transformation has been shaped by key events, including the Green Revolution, structural changes, and recent trends, which have introduced new challenges and opportunities, underscoring the need for sustained investment, innovation, and policy reforms to ensure a productive, resilient, and equitable agricultural sector.

#### 1.1.2.1 Agriculture at the time of Independence

At the time of India's independence in 1947, agriculture formed the cornerstone of the national economy. It contributed over half of the country's Gross Domestic Product (GDP) and provided employment to nearly 70% of the workforce. This overwhelming dependence on agriculture underscored its significance not only as a livelihood source but also as a foundation for national food security and economic stability. However, in



the decades that followed, India witnessed a steady decline in agriculture's contribution to GDP, even though the sector continues to support a large segment of the population in terms of employment.

### **1.1.2.2 The Post-Independence Agricultural Scenario**

In the immediate aftermath of independence, Indian agriculture was characterised by low levels of productivity, high vulnerability to climatic conditions, especially the monsoon and a reliance on age-old farming practices. The inadequacy of food production led India to depend heavily on food grain imports to meet domestic requirements. In response, the government prioritised agricultural reform as a national imperative, initiating land redistribution efforts, launching community development programmes, and establishing institutions dedicated to agricultural research and extension.

### **1.1.2.3 The Green Revolution**

The 1960s brought a landmark shift with the advent of the Green Revolution. This movement introduced high-yielding varieties (HYVs) of seeds, along with increased application of chemical fertilisers, improved irrigation systems, and greater mechanisation. These innovations dramatically boosted agricultural productivity, especially in the north western states such as Punjab, Haryana, and western Uttar Pradesh. As a result, India not only achieved self-sufficiency in food grains but also reduced its dependence on external aid and imports. Nevertheless, the Green Revolution was not without its shortcomings. Its benefits were unevenly distributed across regions and social classes. Environmental degradation stemming from the excessive use of fertilisers, pesticides, and over - extraction of groundwater emerged as a critical concern. Moreover, despite higher yields, rural poverty remained a persistent issue, and the revolution did not generate the broad-based employment that many had hoped for.

### **1.1.2.4 Structural Decline in GDP Contribution**

As India's economy diversified, the share of agriculture in GDP began a long-term decline. From contributing over 50% in the 1950s, agriculture's share dropped below 20% by the early 2000s, and currently hovers around 15%. This pattern aligns with the general trend of structural transformation observed in developing economies, where industrial and service sectors gradually take precedence. However, India's case is marked by a peculiar mismatch: while agriculture's GDP share has declined sharply, its share in employment has remained disproportionately high, currently involving around 45% of the workforce. This discrepancy points to low labour productivity and widespread disguised unemployment in rural areas.

### **1.1.2.5 Recent Trends and Emerging Challenges**

In recent years, Indian agriculture has begun to diversify beyond traditional crop cultivation. Sectors such as horticulture, floriculture, animal husbandry, fisheries, and organic farming have grown in prominence. The government has launched various initiatives to modernise agriculture, including the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) for direct income support, the National Agriculture Market (e-NAM) to enhance market access, and programmes promoting digital agriculture and

sustainable practices. Despite these efforts, the sector continues to grapple with a range of challenges. Fragmented and small landholdings limit economies of scale. Climate change and erratic weather patterns threaten crop yields. Rural indebtedness remains a chronic problem, and inadequate infrastructure hampers farmers' access to markets and fair prices.

### **1.1.2.6 Agriculture in Transition**

The evolution of the agricultural sector since independence presents a complex picture of both advancement and unresolved issues. While its economic weight in terms of GDP has diminished, agriculture remains a vital pillar of India's food security, rural livelihood, and social equity. To ensure that agriculture contributes meaningfully to inclusive and sustainable growth, there is a need for sustained investment in rural infrastructure, technological innovation, and comprehensive policy reforms aimed at improving productivity, resilience, and farmer welfare.

## **1.1.3 Industrial Sector**

### **1.1.3.1 Post-Independence Beginnings: A Strategic Economic Pillar**

Since India's independence in 1947, the industrial sector has played a central role in the nation's journey toward economic modernisation and self-reliance. Initially underdeveloped and contributing a modest share to GDP, industry evolved steadily over the decades, shaped by changing policy paradigms, shifts in global economic dynamics, and technological advancements. While it has not matched the service sector's explosive growth in GDP terms, the industrial sector remains vital for infrastructure creation, job generation, technological development, and regional economic balance.

### **1.1.3.2 Planned Industrialisation and the Mixed Economy Era (1950s–1980s)**

In the formative years after independence, India embraced a mixed economic model with strong socialist leanings under the stewardship of Prime Minister Jawaharlal Nehru. The Industrial Policy Resolution of 1956 laid the foundation for state-led industrialisation. The government assumed a dominant role in critical sectors such as steel, energy, transport, and heavy machinery. The private sector was permitted to operate, but under strict licensing and regulatory controls, leading to what became known as the 'License Raj'. During this period, large-scale public sector enterprises (PSEs) were established to drive national development, while small-scale industries were promoted to foster employment and equitable regional growth. Although this strategy helped build a diversified industrial base, it also introduced significant inefficiencies - marked by bureaucratic delays, low productivity, lack of global competitiveness, and limited innovation - owing to the protectionist nature of the economy and minimal exposure to market-driven forces.



### 1.1.3.3 Liberalisation and Industrial Resurgence (1991–Present)

The economic crisis of 1991 marked a watershed moment in India's industrial trajectory. Facing a severe balance of payments crisis, the Indian government launched a comprehensive reform agenda aimed at liberalising the economy. The New Industrial Policy of 1991 dismantled the licensing regime, reduced the role of the public sector, and welcomed foreign direct investment (FDI). These reforms opened the doors for greater private participation, technological upgrades, and integration with global markets. In the decades that followed, India's industrial sector diversified significantly. High-growth areas emerged, including automotive manufacturing, pharmaceuticals, chemicals, engineering goods, and consumer electronics. The establishment of Special Economic Zones (SEZs), coupled with targeted initiatives such as the Make in India campaign and Production-Linked Incentive (PLI) schemes, aimed to position India as a competitive manufacturing hub and reduce dependence on imports.

### 1.1.3.4 Structural Patterns and Sectoral Contribution to GDP

The industrial sector's contribution to GDP rose from approximately 15% in the early post-independence years to about 25% by the early 2000s. However, this momentum has plateaued in recent decades, with the sector's share hovering around 25–30%. Economists often refer to this trend as 'premature deindustrialisation', which means that industrial growth stops rising before a country becomes a high-income nation wherein industrial growth levels off before the country achieves high-income status. One of the critical challenges has been the sector's limited capacity to absorb surplus labour transitioning out of agriculture. While capital-intensive and high-technology industries have expanded, labour-intensive manufacturing has not kept pace, resulting in a persistent employment gap. This imbalance restricts the sector's potential to serve as a broad-based engine of job creation.

To rejuvenate industrial growth, the government has launched several flagship programmes, which include the following initiatives:

- ◆ Make in India aims to enhance domestic manufacturing capabilities and attract global investment.
- ◆ Atmanirbhar Bharat promotes self-reliance by strengthening local supply chains and boosting indigenous production.
- ◆ PLI Schemes offer targeted financial incentives to increase output in key sectors like electronics, textiles, and pharmaceuticals.

Despite these proactive measures, the industrial sector continues to face notable constraints. These include inadequate infrastructure, cumbersome regulatory frameworks, shortages of skilled labour, and intense global competition. The COVID-19 pandemic further exposed vulnerabilities in supply chains and underscored the need for greater resilience and diversification.

### 1.1.3.6 Unlocking Industrial Potential for Balanced Growth

India's industrial sector has undergone a significant transformation since 1947, contributing to economic diversification, technological progress, and infrastructure development. However, its full potential remains untapped. For India to emerge as a global manufacturing leader and achieve balanced, inclusive growth, a forward-looking industrial strategy is essential - one that prioritises innovation, sustainability, robust infrastructure, and large-scale employment generation. Strengthening the industrial base will not only boost GDP but also ensure a more equitable distribution of economic gains across regions and social strata.

## 1.1.4 Service Sector

The service sector has emerged as the most dynamic and transformative force within the Indian economy, particularly since the 1990s. Although it played a relatively modest role in the early years following independence, the post-liberalisation period has seen it expand dramatically, both in terms of its contribution to GDP and its global competitiveness. Today, the service sector stands as the largest contributor to India's GDP, serving as the primary engine behind the country's economic growth.

### 1.1.4.1 Early Developments (1947–1990)

In the immediate aftermath of independence, India's service sector was primarily composed of traditional services, including public administration, defence, education, and healthcare. Government expenditure on social and administrative services led to the gradual expansion of the sector. However, its impact on economic growth was relatively limited, as industrialisation remained the main focus of state policy. During this period, some modern service industries, such as banking, insurance, and transportation, developed under state ownership, but the overall pace of growth was slow. Factors such as limited urbanisation, lower levels of income, and a lack of widespread private enterprise activity contributed to the sector's relatively modest growth.

### 1.1.4.2 Post-Liberalisation Boom

The economic liberalisation of 1991 marked a pivotal turning point for the service sector. The reduction of trade barriers, deregulation of industries, and opening up of the economy paved the way for the rapid emergence and expansion of new service industries. One of the most notable areas of growth was the Information Technology (IT) and IT-enabled services (ITeS) sector. India became a global hub for software services, business process outsourcing (BPO), and other knowledge-based industries. Cities like Bengaluru, Hyderabad, Pune, and Gurugram transformed into key technology centres, attracting substantial investment and talent from across the globe. The success of the IT sector not only boosted exports and foreign exchange reserves but also provided millions of job opportunities for educated youth.



### 1.1.4.3 Diverse Growth Areas

Beyond IT and software, the service sector in India has expanded to encompass a wide variety of industries, including:

- ◆ **Financial Services:** Banking, insurance, capital markets, and fintech have witnessed rapid growth.
- ◆ **Retail and Trade:** Both organised and unorganised retail, alongside the booming e-commerce sector.
- ◆ **Tourism and Hospitality:** Significant growth in both domestic and international tourism, as well as the hotel and restaurant industries.
- ◆ **Telecommunications:** The expansion of mobile and internet services has been crucial to the sector's growth.
- ◆ **Education and Healthcare:** Both public and private sectors have seen growth in these critical areas.
- ◆ **Logistics and Transport:** With globalisation and the rise of e-commerce, demand for logistics and transport services has surged.

The diversity within the service sector has made it resilient and adaptable, allowing it to contribute over 50% to India's GDP since the early 2000s.

### 1.1.4.4 Employment and Urbanisation

Although the service sector contributes significantly to GDP, its share of total employment remains lower than that of agriculture. However, its employment share is steadily increasing, particularly in urban areas. High-skilled service jobs tend to offer better pay and working conditions, while the sector also includes a large informal segment - such as street vendors, small shopkeepers, and self-employed workers. This highlights income disparities and differences in job quality. Urbanisation, rising incomes, digitalisation, and shifting consumer behaviours have all driven the expansion of services. The growth of startups in sectors like fintech, EdTech, health-tech, and gig economy platforms is a testament to the sector's ongoing transformation.

### 1.1.4.5 Challenges and the Way Forward

Despite its prominent role in driving economic growth, the service sector faces several challenges:

- ◆ **Skilling :** The demand for skilled workers in the sector continues to outpace the availability of trained personnel.
- ◆ **Digital Divide :** There is a significant gap between urban and rural areas in terms of access to modern services.
- ◆ **Employment Quality :** Informality and underemployment are prevalent in lower-end services, affecting job quality.

- ◆ **Global Competition** : India faces stiff competition from other developing economies, especially in service exports.

To address these challenges, it is essential for policies to focus on:

- ◆ Strengthening digital infrastructure.
- ◆ Expanding vocational training and education to equip workers with the necessary skills.
- ◆ Encouraging innovation and supporting start-ups.
- ◆ Enhancing service delivery in critical sectors like healthcare, education, and governance.

## 1.1.5 Comparison of Sectoral Composition in India (GDP and Employment)

The service sector has become a defining feature of India's economic transformation, leapfrogging manufacturing in its contribution to GDP. As India strives to become a \$5 trillion economy, the service sector will continue to play a central role in achieving this goal. Ensuring that its growth remains inclusive, technology-driven, and employment-intensive will be critical for ensuring long-term economic prosperity and social equity.

Table 1.1.1 Comparison of Sectoral Composition in India (GDP and Employment)

Sector	Share in GDP (1950–51)	Share in Employment (1950s)	Share in GDP (1991–92)	Share in Employment (1990s)	Share in GDP (2022–23)	Share in Employment (2020s)
<b>Agriculture</b>	51%	70%	29%	60%	15–17%	45%
<b>Industry</b>	15%	11%	27%	17%	25–27%	25%
<b>Services</b>	34%	19%	44%	23%	53–55%	30%

Source: Economic Survey 2023-2024; Economic Division, Min. of Finance

In 1950–51, agriculture was the dominant sector in India, contributing more than half of the GDP and employing nearly 70% of the workforce. However, by 1991–92, its share in GDP had fallen significantly to 29%, while it still employed around 60% of the population, reflecting low productivity and inefficiency. This trend continued into 2022–23, with agriculture contributing only 15–17% to GDP, yet employing about 45% of the workforce - indicating persistent underemployment and disguised unemployment. This reveals a structural lag in the economy, where employment has not shifted in alignment with output. In contrast, the industry sector saw its share in GDP nearly double by 1991, driven by industrialisation and policy focus. However, the growth in employment remained modest, pointing to capital intensive rather than labour intensive growth.

In the 2020s, the industry's GDP share has plateaued at around 25-27%, with employment now at 25%, suggesting a more balanced contribution. Nonetheless, India has not experienced the kind of manufacturing-led growth seen in East Asian economies. The services sector has shown the most significant expansion, with its share in GDP rising from 34% in 1950-51 to over 50% in 2022-23. While employment in services has also increased, it remains disproportionately low at around 30%, despite being the largest contributor to GDP. This indicates higher productivity and wage differentials in services, especially in high value segments like IT, finance, and telecommunications.

India's development path reflects a 'services-led' growth model, which is atypical for developing countries. A clear mismatch exists between sectoral shares of GDP and employment - agriculture has the largest share of employment but the smallest contribution to GDP, services dominate GDP but employ relatively fewer people, and industry remains the only sector where output and employment are relatively aligned. The slow transition of labour from agriculture to more productive sectors, despite liberalisation and urbanisation, highlights a major challenge: India's structural transformation remains incomplete. Moving forward, the key policy focus must be on creating productive, non-agricultural employment, particularly in labour-intensive manufacturing and modern service sectors, to ensure inclusive and sustainable growth.

### **1.1.5.1 Phases of Sectoral Transition**

#### **1. 1950s–1970s: Agricultural Dominance with Industrial Push**

At the time of independence, agriculture remained the mainstay of the Indian economy, supporting the vast majority of the population and accounting for a dominant share of national income. However, recognising the need to build a modern and self-reliant economy, the government adopted a strategy of planned industrialisation through the Five-Year Plans. This involved prioritising the development of heavy industries, capital goods, and core infrastructure, largely under state ownership, since the private sector lacked adequate resources and technological capacity. As a result, the industrial sector did grow, but its progress was slow and constrained, partly due to strict licensing regulations, limited competition, and inefficiencies in public sector enterprises. During this period, the services sector also began to expand, though at a modest pace. Its growth was mainly driven by the expansion of government administration, public services, education, transport, and basic infrastructure required to support a newly independent nation. Together, these developments marked the beginning of India's structural transformation, though agriculture continued to dominate the economy for several decades.

#### **2. 1980s–1990s: Diversification Begins**

During the decades following the initial phase of planning, industrial growth gradually gained momentum, particularly in consumer goods, basic manufacturing, and infrastructure-related industries. Improvements in transport, power generation, and communication systems supported this rise and helped broaden the industrial base of the economy. At the same time, the services sector began expanding more rapidly, driven by growth in trade, finance, education, banking, transport, and public administration. This shift reflected the increasing complexity of the economy and the growing demand for

support services. Meanwhile, although the share of agriculture in GDP started to decline steadily, the sector continued to employ the majority of India's workforce, highlighting the slow pace of labour migration and structural transformation. This period therefore marked a significant turning point, with industry and services beginning to assume a larger role in national income even as agriculture remained central to livelihoods.

### **3. Post-1991: Services Take the Lead**

With the onset of liberalisation in the 1990s, the service sector witnessed explosive growth, led by rapid expansion in information technology, telecommunications, finance, and business services. Global integration, improved technology, and rising foreign investment helped services become the most dynamic component of the economy. Industrial growth remained moderate, though several sub-sectors such as automobiles, pharmaceuticals, and consumer durables performed strongly due to increased competition and modernisation. Meanwhile, agriculture's share in GDP continued to decline, even though the sector still absorbed a large portion of the workforce, reflecting slow employment diversification. Overall, this period marked a clear shift toward a service-led growth pattern in India's post-reform economy.

### **4. From 2000 To The Present: Service-Led Growth Amidst Uneven Industrialisation**

In recent years, the services sector has consolidated its dominance, fuelled by strong domestic consumption, rising income levels, and growth in exports, particularly in IT, finance, and professional services. In contrast, manufacturing has struggled with stagnation, facing structural bottlenecks, competition, and slow adoption of new technologies, despite policy initiatives like Make in India aimed at boosting industrial production. Meanwhile, agriculture continues to face persistent challenges, including fragmented landholdings, climate variability, and price fluctuations, even as diversification, improved technologies, and government support seek to enhance productivity and farmer incomes.

Achieving balanced and inclusive growth in India requires targeted interventions across all three sectors of the economy. Revitalising agriculture involves strengthening rural value chains, expanding irrigation and market access, promoting sustainable practices, and empowering small farmers through credit and digital tools. To reinvigorate the industrial sector, there must be a renewed emphasis on labour-intensive manufacturing, supported by investments in infrastructure, regulatory reforms for MSMEs, and the effective implementation of schemes like Make in India and Production-Linked Incentive(PLI) scheme. Building a skilled workforce through vocational training is also critical. Simultaneously, the services sector must be strengthened by expanding digital infrastructure to rural areas, promoting high-potential service exports, formalising the informal economy, and improving urban planning to accommodate the sector's rapid growth. A coordinated, sector-specific approach is essential to address structural imbalances, create productive employment, and ensure sustainable development for all.



## Recap

- ◆ India's economy has transformed significantly since 1947
- ◆ The economy has evolved from primarily agrarian to more diversified and modern
- ◆ There have been significant sectoral changes in India's economy
- ◆ At independence, agriculture contributed over 50% of India's GDP
- ◆ Currently, agriculture's GDP share is around 15-17%
- ◆ Agriculture still employs approximately 45% of India's workforce, highlighting persistent challenges in agriculture related to low productivity
- ◆ Environmental concerns are also persistent challenges in agriculture
- ◆ The service sector has become the largest contributor to India's GDP
- ◆ The growth of the service sector is driven by IT, finance, and knowledge-based industries
- ◆ The service sector's GDP share has risen from 34% in 1950-51 to over 50% at present
- ◆ The service sector employs a relatively lower share of the workforce compared to agriculture
- ◆ The industrial sector played a pivotal role in India's post-independence development
- ◆ The industrial sector's GDP share is hovering around 25-27%
- ◆ There is a need for renewed focus on labour-intensive manufacturing in India
- ◆ Infrastructure development is also needed for the industrial sector
- ◆ To address structural imbalances, sector-specific strategies are necessary
- ◆ Targeted interventions are needed in agriculture, industry, and services
- ◆ Emphasis should be placed on vocational training
- ◆ Infrastructure development is crucial for overall growth
- ◆ Environmental sustainability needs to be emphasised
- ◆ Digitalisation is important for economic progress
- ◆ Innovation is key to inclusive and sustainable growth

## Objective Questions

1. What was the dominant sector in India's economy at the time of independence in 1947?
2. What has been the trend in the share of agriculture in India's GDP since independence?
3. What was the share of the service sector in India's GDP in 1950-51?
4. What is the current share of the service sector in India's GDP?
5. What is the current share of the industrial sector in India's GDP?
6. What is the main challenge facing the agriculture sector in India?
7. What is the government's initiative to promote manufacturing in India?
8. What is the objective of sector-specific strategies in India's economic development?

## Answers

1. Agriculture
2. Declining
3. 34%
4. 50%
5. 31%
6. Low productivity, high production costs, and limited market access
7. Make in India
8. To address structural imbalances

## Assignments

1. Discuss the sectoral shifts in India's economy since independence in 1947. How have these shifts impacted the country's economic growth and development?



2. Examine the current status of the agriculture sector in India.
3. Analyse the impact of economic liberalisation on India's industrial sector. What are the challenges and opportunities faced by the sector in the post-liberalisation era?
4. Discuss the role of the service sector in India's economic growth and development.
5. Discuss the impact of globalisation on India's economy since 1991.

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## UNIT

# Shift of Labour Force and Unemployment Estimation

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ discuss the trends in labour force shifts over the years
- ◆ identify the major causes and patterns of unemployment in the economy
- ◆ describe the different methods used to estimate unemployment in India

### Prerequisites

India's economic journey since gaining independence in 1947 has been marked by a profound transformation of its workforce and the nation's sources of wealth. Historically, agriculture was the cornerstone of the Indian economy, providing sustenance and livelihoods for the vast majority of the population. However, over the years, a significant shift has occurred, characterised by a gradual transition towards industrial activities such as manufacturing and construction, and more notably, a substantial expansion of the service sector. The service sector, encompassing areas like information technology, finance, and various support services, has emerged as a pivotal contributor to India's economic growth. This evolution in the country's economic landscape is a testament to its progress and diversification. Nevertheless, the migration of workers from traditional agricultural roles to newer industries has not kept pace with the rapid economic changes. Consequently, a substantial percentage of India's population remains engaged in agriculture, despite this sector's diminishing contribution to the country's total income. This disparity underscores the complexities of India's diverse job market, influenced by a myriad of factors including economic progress, government policies, and societal norms. These factors have contributed to the prevailing mismatch between the workforce's composition and the economy's sectoral contributions. Understanding the intricacies of this evolving job landscape, the

drivers behind these shifts, and the challenges they pose is essential for devising strategies to generate employment opportunities in the future.

Effective planning and policy interventions are crucial to ensuring that economic growth is inclusive and benefits all segments of Indian society. By addressing the existing disparities and leveraging the country's demographic dividend, India can unlock its full potential and create a more equitable and prosperous future for its citizens.

## Keywords

Disguised Unemployment, Seasonal Unemployment, Structural Unemployment, Cyclical Unemployment, Technological Unemployment, Frictional Unemployment, Vulnerable Unemployment, IRDP, TRYSEM, RSETI, JRY, MGNREGA, PMKVY, Start-Up India, Stand-Up India

## Discussion

### 1.2.1 Shift of Labour Force in Sector wise Over The Years

Since gaining independence in 1947, India has experienced a significant structural transformation in both economic output and employment patterns. In the initial decades, the economy was predominantly agrarian, with a large portion of the workforce employed in agriculture. Over time, however, there has been a gradual transition towards industrialisation and, more prominently, an expansion of the service sector. Despite these changes in GDP composition, the movement of labour across sectors has not always kept pace, resulting in a persistent disparity between sectoral contributions to national income and employment. This mismatch highlights the complex nature of labour dynamics within India's vast and diverse economy. The evolving scenario is shaped by a combination of economic, policy-driven, and societal factors influencing the reallocation of labour among agriculture, industry, and services. The analysis also addresses the challenges and broader implications of this transition for future workforce strategies and inclusive economic development.

#### 1.2.1.1 Labour Force in the Agricultural Sector

- a. **Dominance in the Early Years (1947–1970s) :** In the immediate decades following independence, India's economy was predominantly agrarian, with over 70% of the labour force engaged in agriculture and allied activities. Agriculture was not only the primary source of livelihood but also crucial for ensuring food security and sustaining rural life. The majority of the population resided in villages with limited access to non-agricultural employment, a situation inherited from the colonial era that had stifled industrial growth.

Post-independence, the government placed strong emphasis on agricultural development through successive Five-Year Plans, particularly in response to the food crises of the 1960s. The Green Revolution in the late 1960s and early 1970s marked a pivotal shift, significantly boosting food grain production and reducing reliance on imports. However, the benefits of increased productivity were region-specific; mainly in Punjab, Haryana, and Western Uttar Pradesh, and did not translate into proportional growth in employment. Technological advancements and mechanisation, while improving yields, gradually began to reduce the sector's capacity to absorb labour.

- b. Stagnation and Slow Decline (1980s–2000s) :** By the 1980s and 1990s, agriculture's share in GDP was on a steady decline, yet it continued to employ a disproportionately large portion of the workforce. In 1991, for example, the sector accounted for roughly 29% of GDP but still employed nearly 60% of the labour force. This imbalance reflected issues such as low labour productivity, underemployment, and widespread disguised unemployment. Despite various rural development initiatives and employment programmes, the structural shift of labour from agriculture to industry and services progressed slowly. The rural economy remained vulnerable, heavily dependent on monsoons and subject to cyclical uncertainties.
- c. Continued Dependence and Structural Challenges (2010s-2020s) :** By the early 2020s, agriculture's share in India's GDP had declined to around 15-17%, yet the sector continued to employ nearly 45% of the workforce. This slow and uneven shift of labour away from agriculture is often referred to as the 'sticky' nature of agricultural employment. Several factors contribute to this persistence, including the limited capacity of the industrial and service sectors to absorb large numbers of unskilled rural workers, as well as the lack of adequate education and skills among agricultural labourers, which restricts their ability to transition into formal employment. Social and cultural norms also play a role, often discouraging migration or occupational shifts, while fragmented landholdings keep many individuals tied to subsistence farming. Although initiatives like MGNREGA have provided some relief by offering non-farm employment in rural areas, they have not been sufficient to overcome the deeper structural barriers that hinder broad-based rural job creation.
- d. Recent Trends and Future Outlook :** In recent years, there has been renewed policy attention toward modernising agriculture through agri-tech innovations, organic farming, and the promotion of agribusiness. These efforts hold potential for generating new forms of rural employment. However, a substantial shift in labour from agriculture to more productive sectors still hinges on large-scale job creation in manufacturing and services. India's key developmental challenge lies in facilitating a smoother and more dignified transition for agricultural workers into better-paying and more stable employment, while avoiding mass urban distress and minimising rural inequality.

### 1.2.1.2 Labour Force in the Industrial Sector

At the time of independence in 1947, India's industrial sector was small and contributed only about 10-12% of total employment. The government adopted a state-led industrialisation strategy under the Five-Year Plans, focusing on heavy, capital-intensive industries and public sector undertakings, guided by Nehru's vision of import substitution and self-reliance. While this expanded industrial output, employment growth remained limited due to the capital-intensive nature of these industries, restrictive licensing, and bureaucratic hurdles. From the 1980s onwards, policy relaxation helped small-scale industries in textiles, garments, leather, and food processing generate more jobs, but the labour market became split between a small formal sector with secure employment and a much larger informal sector offering low-paid, unstable work. Post-1991 liberalisation further boosted manufacturing through deregulation and foreign investment, yet it still failed to absorb the growing number of low-skilled workers leaving agriculture.

Post-2000, India experienced high GDP growth rates, yet this was not matched by proportional employment growth in the industrial sector. Although the sector's share in GDP increased to about 25 to 27%, its contribution to employment stagnated at around 22 to 25%. This phenomenon, often termed 'jobless growth', was driven by the increasing automation of production processes and a preference for capital-intensive technologies. The organised manufacturing sector remained relatively small, while rigid labour laws, high compliance costs, inadequate infrastructure, and erratic power supply further constrained the growth of labour-intensive enterprises. Despite initiatives like Make in India and Start-up India, the industrial sector struggled to absorb labour on the scale required to reduce rural underemployment.

Today, manufacturing and construction continue to create many jobs, especially in urban and semi-urban areas, but most of these jobs are informal, such as contract work, construction labour, and work in small workshops. To shift surplus labour from agriculture to better industrial jobs, India needs strong reforms - promoting labour-intensive industries, supporting MSMEs, expanding skill training and apprenticeships, and simplifying labour laws while protecting workers' rights. Strengthening the industrial sector is crucial not only for steady economic growth but also for generating millions of quality jobs for India's growing young workforce.

### 1.2.1.3 Labour Force in the Service Sector

In the decades following independence, the service sector in India played a largely supportive role within the economy, contributing primarily to administration, trade, education, healthcare, and transportation. Between the 1950s and 1980s, it remained modest in terms of employment generation, accounting for around 18-20% of the total labour force. Employment in this sector was mostly concentrated in urban areas and consisted of traditional roles such as shopkeepers, teachers, clerks, and government employees. Although not a dominant force in employment at the time, the service sector laid the foundation for broader economic shifts in the years to come.

A major transformation occurred in the 1990s with the introduction of economic liberalisation. The post-1991 reforms ushered in an era of rapid growth in the service sector, which became the most dynamic component of the Indian economy. Globalisation, deregulation, and technological advancement spurred growth in information technology (IT), telecommunications, banking, finance, and media. Notable developments during this period included the rise of IT and IT-enabled services (ITES), which helped create a new class of urban, educated workers; significant expansion in the telecom and financial sectors driven by privatisation; and increased investment in hospitality, tourism, real estate, education, and healthcare. These changes elevated the sector's contribution to GDP to over 50% by the early 2000s. However, employment growth lagged behind, with the sector employing only around 26-28% of the workforce by the late 2000s. This was largely because many of the new jobs were skill-intensive, requiring higher education, digital fluency, and English language proficiency.

In the 2010s and beyond, the service sector expanded further with the rise of digital platforms and gig economy jobs in areas like logistics, fintech, online education, and app-based services. While these created new opportunities, a large share of workers continued to depend on low-skilled, informal jobs such as vending, delivery work, domestic help, driving, and small retail work. This led to a dual structure in the sector, with well-paid formal jobs on one side and insecure, low-paid work on the other. By the early 2020s, services contributed more than half of India's GDP and employed about 30% of the workforce, but still could not absorb all the surplus labour coming out of agriculture.

Going forward, the service sector can become a major driver of inclusive employment, but key challenges must be tackled. Formalising the informal workforce, expanding digital and vocational training, and improving infrastructure and urban planning are essential to support service-led growth. Strengthening service exports in areas like healthcare, education, design, and logistics can further boost job creation. With the right policies, the sector can serve as a bridge between agriculture and industry by offering opportunities to rural migrants and encouraging local entrepreneurship. However, without targeted interventions, the divide between high- and low-income service jobs may widen, increasing socio-economic inequality.

#### 1.2.1.4 Trends in Labour Force Shifts Across Decades

Since independence, India's labour force has experienced a gradual yet uneven transformation, marked by persistent mismatches between sectoral contributions to GDP and their respective employment shares. Over the decades, while the structure of the economy evolved, employment patterns have lagged behind, reflecting deep-rooted challenges in labour mobility, sectoral absorption, and productivity growth.

1. **1950s-1970s: Agricultural Hegemony** : In the decades immediately after independence, agriculture remained the primary source of livelihood, employing over 70% of the workforce. The state's development strategy emphasised heavy industries through centralised planning, leading to limited expansion in industrial employment. The industrial sector remained capital-intensive and struggled to absorb surplus labour from agriculture.

Meanwhile, the service sector grew modestly, primarily through government jobs in administration, education, health, and transport. Overall, labour mobility was low, and job diversification was minimal during this period.

2. **1980s: Beginning of Structural Shifts :** The 1980s witnessed the early signs of transition, driven by partial economic liberalisation and the growth of small-scale industries. Industrial employment saw a modest rise, particularly in urban informal sectors, which provided alternatives to agricultural jobs. However, agriculture continued to dominate, employing nearly 65-70% of the labour force. The services sector began expanding its reach, absorbing skilled workers into banking, telecommunications, and trade. Although change was underway, the pace of structural transformation remained slow.
3. **1990s: Economic Liberalisation and Sectoral Realignment :** The liberalisation reforms of 1991 marked a watershed moment in India's labour and economic trajectory. The agricultural workforce began to decline more noticeably, dropping below 60% by the end of the decade. The industrial sector experienced growth, particularly in manufacturing and construction, but not at the pace required to absorb the exiting rural workforce. In contrast, the service sector expanded rapidly, with booming employment in IT, finance, media, tourism, and telecommunications. This period signalled the onset of a service-led economy, bypassing the typical pattern of industrialisation-driven labour absorption seen in many developing countries.
4. **2000s: Jobless Growth and Urban Transitions :** During the 2000s, the decline in agricultural employment continued, falling to approximately 52–55%. Despite strong output growth in manufacturing, job creation remained sluggish-prompting concerns over 'jobless growth'. Construction emerged as a key source of employment for rural migrants, offering low-skilled jobs. The services sector, now the largest contributor to GDP, continued absorbing an increasing share of the labour force, especially in urban centres. The decade also saw rapid urbanisation, influencing labour distribution and job preferences.
5. **2010s: Services Expansion and Persistent Informality :** By the 2010s, the share of the labour force in agriculture dipped below 45%, signalling a historic shift. However, manufacturing employment remained stagnant, largely concentrated in informal or contract-based work. Emerging sectors like digital services, e-commerce, and logistics provided new job opportunities, albeit with limited stability and social security. A widening gap emerged between high-skill formal service jobs and low-wage informal work, creating a dualistic labour market. Youth unemployment and underemployment grew despite rising educational attainment.
6. **2020s: COVID-19 Disruptions and Emerging Realities :** The pandemic severely impacted labour markets, particularly informal and migrant workers. Reverse migration increased reliance on agriculture temporarily. The vulnerabilities of informal employment were laid bare, reinforcing the need for formalisation and social protection. Digitalisation created new service jobs, yet employment quality and security remained concerns. As of 2022–23, agriculture employed around 45% of the workforce but contributed

only 16% to GDP. Industry accounted for 25% of employment and 26% of GDP, while services employed 30% and generated 54% of GDP.

India's labour force has gradually shifted from agriculture to services, with industry failing to serve as the transitional bridge. The persistent gap between sectoral GDP and employment shares reflects productivity and structural challenges. Informality, rural-urban divides, and skill mismatches continue to hinder inclusive labour market transformation. Accelerating this transition remains crucial for equitable and sustainable growth.

### 1.2.1.5 Factors Influencing the Transition of India's Labour Force

The reallocation of labour across the agricultural, industrial, and service sectors in India is driven by a complex mix of economic forces, technological progress, demographic shifts, policy measures, and socio-cultural dynamics. These drivers have collectively shaped the trajectory of labour transformation - accelerating it in some sectors while restraining it in others. The following key factors explain the nuanced and uneven nature of India's labour force transition:

- ◆ **Economic Growth and Structural Transformation:** Economic development typically brings about a shift in employment from low-productivity sectors, like agriculture, to higher-productivity sectors such as industry and services. This phenomenon - termed structural transformation—has occurred in India, but at an uneven pace. While economic growth, particularly after the 1991 reforms, has been strong, the accompanying shift in employment has not kept up. Agriculture continues to engage a disproportionately large share of the workforce relative to its contribution to GDP, reflecting a sluggish movement of labour toward more productive areas of the economy.
- ◆ **Technological Change:** Advances in technology have had dual effects on employment. In agriculture, the Green Revolution and mechanisation reduced the demand for manual labour, improving productivity but displacing workers. In manufacturing, automation and the adoption of capital-intensive methods have limited employment generation, despite higher output. Meanwhile, the service sector—especially digital services—has expanded due to technological innovations. However, these opportunities often require formal education and digital literacy, leaving behind a large section of the unskilled or semi-skilled population.
- ◆ **Urbanisation and Labour Mobility:** India's steady urbanisation has led to the expansion of urban and peri-urban job markets, particularly in construction, retail, transport, and low-end services. Rural-to-urban migration has been a natural response to limited agricultural opportunities. However, many migrants end up in informal, low-wage jobs without security or benefits. While metropolitan areas have seen the growth of high-end services, smaller Tier 2 and Tier 3 cities are emerging as important hubs for lower-end service and manufacturing jobs, absorbing some of the migrating workforce.



- ◆ **Education and Skill Mismatch:** Increased access to education has raised job expectations among the youth, motivating many to leave agriculture. However, a gap persists between the education system and the needs of the labour market. A lack of industry-specific training and inadequate vocational education hampers the ability of individuals to transition into skilled industrial or service-sector roles. As a result, many young people remain unemployed or underemployed despite formal qualifications.
- ◆ **Policy Interventions and Labour Reforms:** Government initiatives have played a pivotal role in shaping labour patterns. Policies such as land reforms and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) have affected rural labour supply. In contrast, schemes like Make in India, Skill India, and Start-up India aim to promote industrial and entrepreneurial employment. While promising in design, these policies have had mixed results in terms of tangible employment outcomes, often due to implementation challenges and structural bottlenecks. Recent labour law reforms seek to enhance job formalisation and employer flexibility but require effective enforcement.
- ◆ **Informality and Rigid Labour Markets:** India's labour market is dominated by informal employment, accounting for over 90% of total jobs. This high degree of informality poses challenges to sectoral shifts, as workers lack job security, benefits, and access to social safety nets. The risks and uncertainties associated with moving from one sector to another, particularly for rural and marginalised populations, discourage labour mobility. Additionally, the limited availability of stable, formal jobs results in many workers being trapped in low-skill, low-wage roles.
- ◆ **Social and Cultural Influences:** Cultural norms, community expectations, and traditional occupational roles continue to influence labour decisions. Gender, caste, and regional identities can restrict mobility and access to certain professions. Women, in particular, face significant barriers ranging from safety concerns and family responsibilities to societal expectations that affect their participation in the labour market. Despite rising education levels, female labour force participation in India remains low and is shaped by complex social dynamics.
- ◆ **Globalisation and Market Exposure:** Post-liberalisation, India's integration with the global economy has created new job opportunities in sectors like information technology, business process outsourcing (BPO), and finance. These sectors have driven service-led employment growth. However, labour-intensive manufacturing industries such as textiles and electronics have struggled due to inadequate infrastructure, regulatory constraints, and global competition. As a result, the benefits of globalisation have not translated into large-scale employment generation for low- and semi-skilled workers.

The transition of India's labour force is the result of an intricate interplay of diverse factors. While economic growth and globalisation have opened up new avenues, persistent informality, skill mismatches, and social barriers continue to restrict inclusive labour mobility. A comprehensive strategy-combining education reform, skill development, labour market formalisation, targeted social policies, and investment in

labour-intensive industries-is essential to ensure that India's workforce can participate meaningfully in its structural transformation.

## 1.2.2 Unemployment

Unemployment refers to the condition in which an individual, actively looking for work, is unable to find employment. It is considered an important indicator of economic health, as it reflects the ability of an economy to create jobs for those seeking work. One of the most commonly used metrics to measure unemployment is the unemployment rate. This is calculated by dividing the number of unemployed individuals by the total labour force, then multiplying by 100 to express it as a percentage.

The National Sample Survey Organisation (NSSO) defines employment and unemployment based on three key activity statuses of an individual:

- ◆ **Working** : An individual who is actively engaged in any form of economic activity is considered 'employed'.
- ◆ **Seeking or available for work** : Individuals who are actively searching for employment or are available to work but are unable to find a job fall under the 'unemployed' category.
- ◆ **Neither seeking nor available for work** : Individuals who are neither looking for work nor available to work are classified outside the labour force. The first two categories-those who are working and those who are seeking or available for work-constitute the labour force.

The unemployment rate is then calculated as the percentage of the labour force that is without work. The formula for calculating the unemployment rate is:

$$\text{Unemployment rate} = \frac{\text{Unemployed Workers}}{\text{Total labour force}} \times 100$$

This measurement provides insights into the overall employment situation and serves as a tool for policymakers to assess the effectiveness of economic strategies aimed at reducing unemployment.

### 1.2.2.1 Types of Unemployment in India

- ◆ **Disguised Unemployment:** Disguised unemployment refers to a situation where more individuals are employed than are actually required for the tasks at hand. In other words, people are working in jobs that do not need them, and their removal would not affect productivity. Technically, it is a situation in which the marginal product of labour tends to be zero or even negative. This form of unemployment is especially prevalent in sectors such as agriculture and the unorganised sectors of India, where family labour is often underutilised or inefficiently deployed.
- ◆ **Seasonal Unemployment:** Seasonal unemployment occurs when workers are temporarily unemployed due to the cyclical nature of certain industries, especially agriculture. In India, agricultural labourers often face



unemployment during the off-seasons when farming activities are not in demand. These workers typically find employment only during planting and harvesting seasons, leaving them idle for a part of the year.

- ◆ **Structural Unemployment:** Structural unemployment arises when there is a mismatch between the skills of the workforce and the jobs available in the market. In India, many individuals are unable to find employment because they lack the required skills for available jobs. This issue is compounded by poor levels of education and training, making it difficult for workers to adapt to new industries or technologies.
- ◆ **Cyclical Unemployment:** Cyclical unemployment is tied to the fluctuations of the business cycle. It occurs when economic downturns, such as recessions, lead to reduced demand for goods and services, causing job losses. Although cyclical unemployment is a significant concern in capitalist economies, it is relatively minimal in India, as the country's economy is less susceptible to such cycles compared to highly industrialised economies.
- ◆ **Technological Unemployment:** Technological unemployment is the loss of jobs due to advancements in technology that automate tasks previously performed by humans. In India, the threat of technological unemployment is growing, as seen in 2016 when the World Bank projected that 69% of jobs in India could be at risk due to automation and robotics, potentially displacing workers in many sectors.
- ◆ **Frictional Unemployment:** Frictional unemployment, also known as search unemployment, refers to the period of time an individual spends searching for a new job or transitioning from one job to another. This form of unemployment is often temporary, as it occurs when workers voluntarily leave their jobs in search of better opportunities. It is not caused by a lack of jobs, but by individuals seeking to improve their employment situation.
- ◆ **Vulnerable Employment :** Vulnerable employment refers to individuals working in informal sectors without official job contracts, legal protections, or social security benefits. These workers are often considered 'unemployed' in official statistics because their work is not recorded or monitored. In India, vulnerable employment is widespread, especially in informal and unorganised sectors, where workers face instability, lack of legal protection, and no access to benefits, contributing significantly to unemployment figures.

Each type of unemployment reflects specific challenges within India's labour market, influenced by economic, structural, technological, and social factors. Addressing these issues requires targeted interventions across education, skill development, labour policies, and the formalisation of the workforce.

### 1.2.2.2 Measurement of Unemployment in India

In India, the measurement of unemployment is primarily carried out by the National Sample Survey Office (NSSO), which operates under the Ministry of Statistics and Programme Implementation (MoSPI). The NSSO uses three distinct approaches to assess unemployment:

- ◆ **Usual Status Approach** : The Usual Status approach estimates unemployment based on a long-term reference period. Under this method, individuals are considered unemployed if they did not engage in any gainful work for a significant portion of the 365 days leading up to the survey. This approach focuses on the usual activity status of individuals, meaning it captures unemployment over a more extended period, giving a broader view of the individual's engagement with work throughout the year.
- ◆ **Weekly Status Approach** : The Weekly Status approach records individuals as unemployed if they did not work for even a single hour during any day of the week preceding the survey. This method provides a more recent snapshot of unemployment compared to the Usual Status approach, reflecting short-term fluctuations in labour market participation over the previous week.
- ◆ **Daily Status Approach** : Under the Daily Status approach, unemployment is measured on a daily basis within a reference week. A person is considered unemployed if they did not engage in gainful work for at least one hour on any given day during the week. This approach is the most detailed, as it captures day-to-day variations in employment, offering a more granular measure of short-term unemployment.

These three methods allow the NSSO to obtain a comprehensive picture of unemployment across different time frames, ranging from long-term to short-term employment inactivity. Each approach provides valuable insights into labour force dynamics in India, helping policymakers and researchers understand the extent and nature of unemployment within the country.

### 1.2.2.3 Unemployment Statistics

According to the 2023-24 Periodic Labour Force Survey (PLFS) by the National Statistical Organisation (NSO), unemployment in India has shown steady improvement. For people aged 15 and above, the unemployment rate has fallen from 6% in 2017-18 to 3.2% in 2023-24. During the same period, both the Labour Force Participation Rate (LFPR) and the Worker Population Ratio (WPR) have gone up, showing that more people are entering the workforce and finding jobs.

The recovery is visible even under the stricter Current Weekly Status (CWS), where employment levels in both rural and urban areas have strengthened after the COVID-19 pandemic. Urban employment indicators also reflect this positive trend. The quarterly urban unemployment rate has slightly improved from 6.6% in Q2 FY24 to 6.4% in Q2 FY25. Along with this, the LFPR in urban areas increased from 49.3% to 50.4%, and the WPR rose from 46% to 47.2%, indicating a gradual but steady strengthening of urban workforce participation.

The 2023-24 PLFS report shows several positive developments in India's labour market. Out of 36 states and union territories, only 12 have a Worker Population Ratio (WPR) below the national average of 43.7%, and the same number fall short of the national Labour Force Participation Rate (LFPR) average of 45.1%.

A major trend highlighted in the report is the rise in self-employment. The share of self-employed workers has grown from 52.2% in 2017-18 to 58.4% in 2023-24,

suggesting that more people are turning to entrepreneurship and flexible work options. During this period, the proportion of workers in regular salaried jobs declined slightly from 22.8% to 21.7%, though this trend has stabilised since 2020-21, with job levels remaining steady or improving slowly.

The share of casual workers has also dropped considerably from 24.9% to 19.8% showing a move away from insecure, daily-wage work toward more stable and structured self-employment. Overall, these shifts point to a changing workforce where people are increasingly choosing independence and flexibility, shaped by new opportunities and changing work preferences.

#### 1.2.2.4 Causes of Unemployment In India

Unemployment in India is a multifaceted issue that is driven by a variety of factors, some of which are deeply rooted in the country's socio-economic structure. Several key causes contribute to the high levels of unemployment and underemployment in the nation, which prevent a significant portion of the labour force from finding sustainable work.

- ◆ **Large Population:** India's large and growing population is one of the primary contributors to unemployment. With over a billion people, the working-age population is continually expanding. However, the pace of job creation in the formal sector does not match the growth in the labour force. This mismatch creates pressure on the job market, leading to high levels of unemployment, especially among the youth. As a result, despite the availability of a large workforce, there are not enough jobs for everyone, particularly in the organised sector.
- ◆ **Low Educational Levels and Lack of Vocational Skills:** A significant proportion of India's working population lacks adequate education and vocational training, which restricts their access to skilled jobs. While the country has made strides in improving access to education, a considerable portion of the workforce remains unskilled or under-skilled, making it difficult for them to meet the demands of modern industries. This skills gap is a major obstacle to employability, as many individuals are unable to fill higher-paying, more productive roles in the formal economy.
- ◆ **Inadequate State Support and Legal Complexities:** The lack of adequate support from the government, coupled with legal and regulatory complexities, particularly for small-scale enterprises, is another significant cause of unemployment. Small businesses, which have the potential to generate a large number of jobs, often struggle with cumbersome regulations, high compliance costs, and a lack of access to financial resources. This results in many small or cottage industries remaining unviable, preventing them from expanding and creating jobs. Furthermore, insufficient market linkages and poor infrastructure further hinder the growth of these enterprises.
- ◆ **Informal Sector Employment:** A substantial portion of India's workforce is employed in the informal sector, which includes domestic helpers, construction workers, and other low-wage workers who lack formal contracts

or benefits. These workers are often not captured in official employment statistics, which can create a misleading picture of employment in the country. Informality leads to job insecurity and a lack of social protections for workers, exacerbating the unemployment problem. Additionally, many of these workers are in low-skilled jobs, further contributing to underemployment.

- ◆ **Mismatch Between Education and Industry Requirement:** Another important factor is the misalignment between the education system and the needs of the job market. The curriculum in schools and colleges often does not align with the current demands of industries, leaving graduates with skills that are not immediately applicable in the workforce. This discrepancy between academic education and industry requirements contributes to structural unemployment, where workers are unable to find jobs that match their educational qualifications.
- ◆ **Inadequate Infrastructure and Investment in Manufacturing:** The lack of growth in infrastructure and low investments in the manufacturing sector restrict the employment potential of the secondary sector. Manufacturing has historically been a major source of employment in many economies, but in India, it has not grown at the necessary pace to absorb the surplus labour from agriculture. Insufficient infrastructure and investment have led to a slow growth rate in the manufacturing sector, limiting job creation in this area.
- ◆ **Low Agricultural Productivity and Lack of Alternatives:** Agriculture continues to employ a large portion of India's population. However, the low agricultural productivity and poor skills of workers makes it difficult for workers to move from the primary sector to the secondary and tertiary sectors, further contributing to unemployment and underemployment.
- ◆ **Social Norms and Gender Barrier:** Regressive social norms that restrict women's participation in the workforce also contribute to high unemployment levels. In many regions of India, women face barriers to entering or continuing employment due to societal expectations, safety concerns, and family responsibilities. These gender-related issues severely limit the availability of a fully engaged workforce, further exacerbating unemployment and gender inequality.

In conclusion, India's unemployment problem is a complex issue influenced by a combination of demographic, economic, social, and educational factors. Addressing these challenges requires comprehensive policy reforms aimed at improving education, providing better infrastructure, promoting skills development, and supporting small businesses to create more job opportunities. Additionally, efforts to address social norms and increase gender equality are crucial for ensuring a more inclusive labour market.

### 1.2.2.5 Government Measures to Reduce Unemployment and Promote Self-Employment

- ◆ **Integrated Rural Development Programme (IRDP, 1980):** The IRDP was launched in the year 1980 with the primary objective of ensuring full



employment opportunities in rural regions. This comprehensive programme was designed to provide the rural poor with productive assets, skills, and access to credit and subsidies, thereby enabling them to generate sustainable income through self-employment ventures.

- ◆ **Training of Rural Youth for Self-Employment (TRYSEM, 1979):** Introduced in 1979, TRYSEM aimed at tackling the problem of unemployment among rural youth aged between 18 and 35 years by equipping them with vocational and entrepreneurial skills. The programme gave special emphasis to marginalised sections of society, particularly Scheduled Castes (SC), Scheduled Tribes (ST), and women, thereby promoting inclusivity and empowerment through skill development.
- ◆ **RSETI/RUDSETI (1982):** In an effort to reduce youth unemployment, a unique partnership was formed in 1982 between Sri Dharmasthala Manjunatheshwara Educational Trust, Syndicate Bank, and Canara Bank. This collaboration led to the establishment of the Rural Development and Self Employment Training Institute (RUDSETI) near Dharmasthala in Karnataka. Over time, the model evolved into Rural Self Employment Training Institutes (RSETIs), which are now operated by banks with active support from both the Central and State Governments. These institutes offer free training programmes in various trades and business skills to rural youth, facilitating self-employment.
- ◆ **Jawahar Rozgar Yojana (JRY, 1989):** The JRY was launched on April 1, 1989, through the consolidation of two earlier wage employment schemes: the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP). Implemented on an 80:20 cost-sharing basis between the Central and State Governments, the programme sought to provide gainful employment to the unemployed in rural areas, particularly through the creation of rural infrastructure.
- ◆ **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA, 2005):** Enacted in 2005, MGNREGA is a landmark employment initiative that guarantees a minimum of 100 days of paid work annually to adult members of rural households who are willing to undertake unskilled manual labour. The Act aims to provide social security and enhance livelihood sustainability by offering employment as a legal right. It also emphasises transparency and accountability in implementation, making it a unique and rights-based approach to employment generation.
- ◆ **Pradhan Mantri Kaushal Vikas Yojana (PMKVY, 2015):** Launched in 2015, PMKVY is a flagship skill development scheme aimed at empowering Indian youth by offering industry-aligned skill training. The programme helps participants improve their employability and income prospects by certifying them in job-relevant skills. It also encourages skill recognition through the Recognition of Prior Learning (RPL) component.
- ◆ **Start-Up India Initiative, 2016:** The Start-Up India campaign was introduced in 2016 to build a robust ecosystem that supports innovation and entrepreneurship across the nation. It aims to encourage aspiring

entrepreneurs by providing financial assistance, simplifying regulatory requirements, offering tax benefits, and promoting incubation centres and start-up networks.

- ◆ **Stand-Up India Scheme, 2016:** Launched in the same year as Start-Up India, the Stand-Up India Scheme is targeted at fostering entrepreneurship among Scheduled Castes (SC), Scheduled Tribes (ST), and women. Under this scheme, each bank branch in the country is mandated to offer loans ranging from ₹10 lakh to ₹1 crore to at least one SC/ST entrepreneur and one woman entrepreneur for setting up a new (greenfield) enterprise in the manufacturing, services, or trading sectors.

Unemployment remains one of the most pressing socio-economic issues in India, influenced by a variety of factors such as population growth, low educational attainment, skill mismatches, and inadequate job creation in both rural and urban areas. The problem is further compounded by the dominance of the informal sector and a lack of alignment between academic training and industry requirements. Various types of unemployment—including disguised, structural, seasonal, and technological—highlight the need for diverse and targeted policy responses. To effectively address unemployment, it is essential to have reliable and comprehensive measurement methods. The National Sample Survey Office (NSSO) employs the Usual Status, Weekly Status, and Daily Status approaches to capture the long-term and short-term dimensions of joblessness. These methods enable policymakers to understand the employment scenario more accurately and plan accordingly.

The Indian government has implemented numerous initiatives to curb unemployment and promote self-employment, such as MGNREGA, PMKVY, Start-Up India, and Stand-Up India. These programmes aim to improve skill development, provide income support, and encourage entrepreneurship. However, long-term solutions require deeper structural reforms, greater investment in infrastructure and manufacturing, improvements in education and training, and stronger support for small enterprises. Only through a multi-pronged and inclusive approach can India effectively reduce unemployment and ensure sustainable livelihood opportunities for all.

## Recap

- ◆ India's economy has shifted from agriculture towards industry and services since 1947, but employment has not followed at the same pace
- ◆ Agriculture employed over 70% of India's labour force in the initial decades after independence (1947-1970s)
- ◆ Despite a declining GDP share, agriculture continued to employ a large portion of the workforce (around 60% in 1991 and about 45% by the early 2020s)



- ◆ At independence, the industrial sector was small, employing only 10-12% of the labour force, and initial state-led industrialisation was capital-intensive with limited job creation
- ◆ While small-scale industries in the 1980s-90s created jobs, the industrial labour market became dualistic with a large informal sector
- ◆ Post-2000, high GDP growth was not matched by industrial employment growth due to automation and capital-intensive technologies
- ◆ The service sector initially played a supportive role with modest employment (18-20% until the 1980s), concentrated in traditional urban roles
- ◆ Economic liberalisation in the 1990s led to rapid growth in the service sector, becoming the largest GDP contributor, but employment growth lagged initially due to skill requirements
- ◆ The service sector in the 2010s and beyond developed a dual structure with high-paying formal jobs and low-paid informal work
- ◆ India's labour force shift has been gradual and uneven, with persistent mismatches between sectoral GDP and employment shares
- ◆ Economic growth, technology, urbanisation, education, policy, informality, social factors, and globalisation all influence India's labour force transition
- ◆ Unemployment is when individuals actively seeking work are unable to find it, measured by the unemployment rate ( $\text{unemployed/labour force} \times 100$ )
- ◆ The NSSO categorises individuals as employed (working), unemployed (seeking/available), or outside the labour force (neither seeking nor available)
- ◆ India experiences disguised, seasonal, structural, cyclical, technological, frictional, and vulnerable employment
- ◆ The NSSO measures unemployment using the Usual Status (annual), Weekly Status, and Daily Status approaches to provide a comprehensive view
- ◆ India has implemented various programmes like IRDP, TRYSEM, RSETI, JRY, MGNREGA, PMKVY, Start-Up India, and Stand-Up India to tackle unemployment.

## Objective Questions

1. In the early post-independence period, what was the dominant sector for employment in India?
2. Which regions primarily benefited from the Green Revolution?
3. Around what percentage of India's workforce was in agriculture by the early 2020s?
4. What was a key characteristic of the initial industrialisation strategy in India?
5. What term describes high GDP growth without proportional job creation in industry post-2000?
6. Which sector saw the most significant GDP growth after the 1991 liberalisation?
7. What is a key characteristic of vulnerable employment?
8. How is the unemployment rate calculated?
9. What type of unemployment is common in agriculture due to seasonal work?
10. Job loss due to automation falls under which type of unemployment?
11. Which NSSO approach measures unemployment based on a 365-day reference period?
12. What was the main aim of the Integrated Rural Development Programme (IRDP)?
13. How many days of work does MGNREGA guarantee annually?
14. Which scheme promotes entrepreneurship among SC/ST and women?
15. What is a major challenge contributing to unemployment in India?

## Answers

1. Agriculture
2. Punjab, Haryana, and Western Uttar Pradesh
3. Approximately 45%
4. State-led development of core industries
5. Jobless growth
6. Services
7. Lack of official contracts and social security
8.  $(\text{Unemployed workers} / \text{Total labour force}) \times 100$
9. Seasonal unemployment
10. Technological unemployment
11. Usual Status Approach
12. To provide assets and credit for rural self-employment
13. 100 days
14. Stand-Up India Scheme
15. Inadequate job creation

## Assignments

1. Discuss the shifts in employment across the agricultural, industrial, and service sectors, highlighting the key trends and persistent disparities between sectoral contributions to GDP and employment.
2. Evaluate the effectiveness of government initiatives aimed at addressing unemployment and promoting self-employment in India.
3. Discuss the various types of unemployment prevalent in India.
4. Compare and contrast the different approaches used by the National Sample Survey Office (NSSO) to measure unemployment in India.
5. Evaluate the impact of globalisation on India's labour force transition.

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## Suggested Reading

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## UNIT

# Demographic Transition and Poverty

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ comprehend India's demographic transition
- ◆ analyse the concept of demographic dividend
- ◆ identify the causes and consequences of poverty
- ◆ evaluate government initiatives for poverty alleviation

### Prerequisites

India has undergone a profound demographic transformation since 1951, marked by a significant decline in birth and death rates, leading to a substantial increase in life expectancy and a burgeoning young population. This demographic shift has resulted in a demographic dividend, where the working-age population has grown disproportionately, presenting a unique opportunity for economic growth and development. However, this growth also brings formidable challenges, including widespread poverty, which affects millions of Indians. Despite progress in reducing poverty, a significant portion of the population still lives below the poverty line, struggling with limited access to basic necessities like healthcare, education, and sanitation. Understanding India's demographic transition, its dividend, and poverty dynamics is crucial for policymakers to create effective strategies for sustainable development, economic growth, and social welfare. This knowledge can inform policies aimed at harnessing the demographic dividend, reducing poverty, and ensuring that the benefits of growth are shared equitably among all segments of the population.

## Keywords

Demographic Transition, Crude Death Rate, Crude Birth Rate, Fertility Rate, Demographic Dividend, Poverty, Self-Help Groups

## Discussion

### 1.3.1 Demographic Transition Since 1951

Demographic transition is a theoretical model that explains the evolution of a country's population characteristics over time, especially in relation to changes in birth and death rates. It describes the shift from a situation where both fertility and mortality are high - often observed in pre-industrial societies - to a stage where both rates are low, which is typically found in economically and socially advanced nations. This transition is not only a reflection of population dynamics but also a broader indicator of developmental progress. It is intrinsically linked with various facets of modernisation, including industrialisation, improvements in healthcare and sanitation, the spread of education, especially among women, increased urbanisation, and rising living standards.

India's demographic transition since 1947 has been marked by significant changes, including declining mortality rates, falling fertility rates, and shifting population growth trends and age distribution. With complex regional variations and diverse socio-economic realities, India's demographic journey presents a fascinating and intricate case study, offering valuable insights into the country's transformation and future prospects.

These demographic shifts have far-reaching consequences. They influence a wide array of national priorities and policies, from the need to create sufficient employment opportunities for a burgeoning youth population to planning for the healthcare and pension needs of an ageing society. Population dynamics also impact the development of urban infrastructure, the provisioning of social welfare services, and the broader trajectory of economic growth and human development. Understanding the nature, pace, and implications of demographic transition is thus essential for shaping effective strategies for inclusive and sustainable development in India.

#### 1.3.1.1 Understanding Demographic Transition

Demographic transition is a widely accepted model used to describe the long-term changes in a country's population growth and composition. This model outlines how population trends evolve over time in response to economic development, social transformation, and improvements in public health and education. The demographic transition theory helps explain why and how populations move from a condition of high fertility and mortality to one of low fertility and mortality as nation's progress. The classic demographic transition model is generally divided into four distinct stages, with some scholars proposing a fifth stage in more recent times. Each stage reflects a different set of population dynamics:

### **Stage 1: High Stationary Phase**

In this initial stage, both birth rates and death rates are very high and fluctuate significantly. This leads to minimal net population growth. High mortality rates are primarily due to poor healthcare, limited access to clean water, widespread disease, famine, and low standards of living. At the same time, high birth rates are maintained due to a lack of family planning, high infant mortality, and the need for labour in agrarian societies. This stage characterises pre-industrial societies and was the norm in most parts of the world before the onset of modernisation.

### **Stage 2: Early Expanding Phase**

During this stage, death rates begin to fall significantly as a result of improvements in medical care, sanitation, nutrition, and overall living conditions. However, birth rates remain high due to cultural norms, limited access to contraception, and the continued economic value of large families. The result is a sharp increase in population growth, often referred to as a population explosion. Many developing countries, including India in the early post-independence decades, experienced this phase during the mid-20th century.

### **Stage 3 : Late Expanding Phase**

In the third stage, birth rates begin to decline, catching up with the already reduced death rates. This reduction in fertility is driven by a variety of socio-economic factors such as increased urbanisation, better access to education (particularly for women), rising costs of child-rearing, improved access to family planning, and a shift in societal values toward smaller families. Population growth slows during this phase, though it remains positive. India entered this stage in the latter half of the 20th century, and many of its states are currently in various stages of this phase.

### **Stage 4: Low Stationary Phase**

In this stage, both birth and death rates stabilise at low levels, resulting in a near-zero or slightly positive population growth rate. Societies in this phase typically have widespread access to healthcare and education, well-developed economies, and low levels of child mortality. Fertility rates often hover around or slightly below the replacement level of 2.1 children per woman. Many developed countries such as Japan, Germany, and Italy are currently in this stage. Certain Indian states like Kerala and Tamil Nadu are also approaching or have already entered this phase.

### **Stage 5: Declining Phase (proposed)**

Some demographers suggest a fifth stage in which birth rates fall below death rates, leading to a natural decline in population. This scenario is already visible in some highly developed countries facing challenges such as ageing populations and shrinking labour forces. Although India as a whole has not yet entered this stage, the possibility of such a shift in the distant future, particularly in more advanced states, is a subject of academic interest.

India's demographic evolution since independence has followed a gradual yet significant trajectory. In 1951, the country was transitioning out of the first stage and

was firmly in the second stage, with high birth rates and declining death rates. Over the subsequent decades, India progressed into the third stage, characterised by a marked decline in fertility. This change has been uneven across the country, with southern and some north-eastern states moving faster toward the fourth stage, while parts of northern and central India continue to experience higher fertility and population growth. Understanding where India and its various regions stand in this demographic transition framework is critical for formulating appropriate policy responses in areas such as health, education, employment, and infrastructure. The demographic transition not only shapes the population size but also its age composition, directly affecting the socio-economic priorities of the nation.

### 1.3.1.2 Demographic Trends in India: 1951 To 2021

India's demographic landscape has undergone profound changes over the past seven decades, influenced by various socio-economic, political, and technological factors. The country has witnessed significant shifts in mortality, fertility, population growth, and urbanisation, all of which have shaped the socio-economic conditions and future development plans. Below is a detailed examination of these demographic trends from 1951 to 2021:

**1. Declining Death Rates :** One of the most noticeable changes in India's demographic profile has been the sharp decline in death rates, a consequence of improvements in healthcare and public health interventions:

- ◆ **Crude Death Rate (CDR):** In 1951, India's death rate stood at approximately 25 deaths per 1,000 people. By 2021, this had fallen to around 6.0 per 1,000 people. This drastic reduction reflects the country's progress in healthcare, sanitation, and nutrition.
- ◆ **Health Improvements:** The decline in death rates was driven by significant strides in medical advancements, particularly in the areas of vaccination, control of infectious diseases, and the widespread use of antibiotics. Public health initiatives targeting sanitation and hygiene, as well as better maternal and child care, have also played a critical role.
- ◆ **A decline in the death rate due to medical advancements, public health initiatives, and improved maternal and child care Life Expectancy:** Life expectancy, which stood at a mere 32 years in 1951, has seen a remarkable increase. By 2021, the average life expectancy had risen to approximately 70 years. This improvement signifies not only better healthcare but also improvements in general living standards, nutrition, and sanitation.

**2. Declining Birth Rates :** While the reduction in death rates was relatively swift, the decline in birth rates occurred more gradually. This process unfolded over several decades, with fertility rates showing a marked decrease after the 1950s:

- ◆ **Crude Birth Rate (CBR):** In 1951, the birth rate was around 40 per 1,000 people, but by 2021, it had decreased to approximately 20 per 1,000 people. This represents a dramatic shift in family planning, fertility patterns, and social attitudes toward childbearing.



- ◆ **Factors Influencing Decline:** Several factors contributed to the decline in birth rates. These include increasing female literacy, particularly among urban populations, greater participation of women in the workforce, and the rising age at marriage. Additionally, the growing availability and acceptance of family planning methods and contraceptive use further accelerated fertility decline.
- ◆ **Government Family Planning Initiatives:** The Indian government's family planning campaigns, which began in the 1960s, played a pivotal role in encouraging smaller family sizes. These programmes, despite facing challenges, successfully influenced population control and fertility trends over time.

**3. Slowing Population Growth :** With both birth and death rates declining, India's population growth rate peaked in the 1970s and has since slowed significantly:

- ◆ **Population Growth Rate:** The annual population growth rate in India reached its peak of approximately 2.2% in the 1970s. However, by 2021, this growth rate had dropped to around 1.0%, reflecting the slower pace of population expansion in recent decades.
- ◆ **Population Numbers:** India's population in 1951 was about 361 million, but by 2021, it had exceeded 1.4 billion. Despite this large increase, the pace of population growth has decelerated, thanks to the combined effects of falling fertility rates and improved mortality rates.

**4. Decline in Total Fertility Rate (TFR) :** India has witnessed a steady decline in its Total Fertility Rate (TFR), which is one of the key indicators used to assess fertility trends:

- ◆ **Total Fertility Rate (TFR):** In 1951, the TFR was around 6.0 children per woman. By 2021, it had decreased to approximately 2.0, moving closer to the replacement level fertility rate of 2.1. This indicates that India is approaching the final stages of demographic transition.
- ◆ **Implications:** The TFR of 2.0 suggests that India is moving towards stable population growth, particularly in urban areas and in states that have already undergone significant socio-economic transformations. However, in some rural regions, the TFR remains higher, indicating regional disparities in fertility rates.

**5. Urbanisation and Migration :** The process of urbanisation in India has accelerated, with a growing proportion of the population shifting from rural to urban areas:

- ◆ **Urbanisation Rates:** In 1951, only about 17% of India's population lived in urban areas. By 2021, this figure had risen to over 35%. The increase in urbanisation reflects both natural population growth and migration from rural areas to cities.
- ◆ **Migration Trends:** A key driver of urbanisation has been migration, as people move to cities in search of better employment opportunities, education, and

healthcare. The migration patterns are also influenced by the availability of industrial and service sector jobs, better living standards in urban regions, and improved infrastructure.

- ◆ **Economic Impact:** Urban areas now contribute significantly to India's economic output. These regions are home to a large share of the country's industries, service sectors, and educational institutions. As a result, urbanisation has not only changed the demographic makeup but has also had profound effects on economic growth and social development.

**6. Transformation in Age Structure :** India's population has undergone a significant transformation in terms of its age composition, which has important implications for the country's workforce and future challenges:

- ◆ **Proportion of Children:** The share of the population under 14 years of age has been steadily decreasing. In 1951, a large proportion of the population was in this age group, but by 2021, it had fallen substantially.
- ◆ **Working-Age Population:** A notable shift has been the increase in the working-age population (15-59 years), which now makes up over 65% of India's total population. This demographic shift presents a significant opportunity for the country, often referred to as the demographic dividend. The growing working-age population is expected to contribute to higher productivity and economic growth, provided there are adequate policies for employment, skill development, and economic inclusion.
- ◆ **Ageing Population:** At the same time, India is witnessing a rise in the proportion of elderly people (60 years and above). While this demographic remains relatively small, the growing number of older adults presents future challenges for social security, healthcare, and welfare systems. The rising number of senior citizens necessitates robust policy frameworks to address healthcare, pension systems, and elderly care.

From 1951 to 2021, India's demographic landscape has transformed dramatically. The decline in death rates, gradual reduction in birth rates, slower population growth, and urbanisation trends reflect India's ongoing demographic transition. The shifting age structure, characterised by a growing working-age population and an increasing elderly population, highlights both the opportunities and challenges that lie ahead for the country. With continued economic development, improvements in healthcare, and successful family planning policies, India is well on its way to completing its demographic transition, with profound implications for its future development, workforce, and socio-economic policies.

## **Drivers of Demographic Change in India**

India's demographic transition has been influenced by a range of interconnected factors. Over the decades since independence, shifts in population patterns have not occurred in isolation but rather as the cumulative result of developments in healthcare, education, economy, urbanisation, policy, and social awareness. Below is a closer look at the key causes that have contributed to this transformation:



1. Advancements in Healthcare and Sanitation, such as the expansion of Public Health Initiatives
2. Economic Development due to rise in Incomes and living Standards and decline in Poverty
3. Female Education, greater workforce participation and improved Gender Equality
4. Urbanisation and Lifestyle Transformation
5. Government Initiatives and Family Planning Programmes
6. Role of Media, Technology, and Communication

## 1.3.2 Demographic Dividend of India

The demographic dividend refers to the economic growth potential arising from a shift in a country's age structure, especially when the proportion of the working-age population (15 to 64 years) exceeds that of dependents (children and the elderly). India is currently in such a phase, with a youthful population offering a unique window of opportunity for rapid economic advancement. As of the early 2020s, over 65% of India's population is under the age of 35, placing the country in a favourable demographic position. This young workforce can drive productivity, innovation, and consumption, contributing significantly to national development. If supported by effective governance, investments in quality education, accessible healthcare, skill training, and employment generation, India could leverage this demographic advantage to boost economic growth, reduce poverty, and enhance its global economic standing. However, realising the full benefits of the demographic dividend is not automatic. Without proper planning and implementation, the potential could turn into a demographic burden, marked by unemployment, underemployment, and social unrest. Therefore, timely and inclusive policy measures are essential to convert this demographic potential into sustainable economic gains and ensure long-term national progress.

### 1.3.2.1 Understanding the Concept of Demographic Dividend

The demographic dividend refers to the potential for accelerated economic growth resulting from changes in a country's age structure, particularly when a greater proportion of the population enters the working-age group. This phenomenon generally unfolds in four distinct stages, each contributing uniquely to economic and social development.

The demographic dividend unfolds in four stages: first, child and infant mortality decline due to better healthcare, sanitation, and nutrition, reducing the need for larger families and gradually stabilising population growth. In the second stage, fertility rates fall as education, awareness, and access to family planning improve, lowering the dependency ratio and freeing up resources. The third stage - where India currently stands - is marked by a significant rise in the working-age population, creating a 'demographic window of opportunity' until around 2040–2050, during which economic growth can accelerate if the workforce is equipped with adequate skills, education, and

employment. The final stage involves population ageing, but with adequate savings and investments made earlier, countries can benefit from a 'second demographic dividend.' Overall, the demographic dividend can drive transformative economic progress, but realising its potential requires strong policies, human capital development, and inclusive growth strategies.

### 1.3.3 Poverty in India

Poverty remains one of the most enduring and complex socio-economic challenges facing India today. Despite the country's rapid economic growth over the past few decades, a significant proportion of its population continues to live in poverty. According to the World Bank (2011-12), approximately 344 million people in India are living below the national poverty line, representing one of the largest concentrations of poverty in the world. This number reduced to 75.24 million people in 2022-23. This stark reality persists even as India has made remarkable progress in various sectors such as technology, services, and industry, positioning itself as one of the world's fastest-growing economies. The persistence of poverty in India is deeply intertwined with a multitude of factors, including historical inequalities, regional disparities, inadequate access to education and healthcare, and the complexities of the labour market. Rural poverty remains particularly widespread, with many people in rural areas relying on agriculture as their primary source of income, often in the face of insufficient resources, poor infrastructure, and vulnerability to climate change. Additionally, urban poverty is increasingly prevalent as migration to cities has surged, creating a growing number of informal workers living in slums and facing precarious living conditions.

#### 1.3.3.1 Defining Poverty In India

Poverty is a complex and multi-dimensional issue that extends far beyond the simple concept of income deficiency. In India, poverty is understood not only as a lack of income but also as inadequate access to essential services and goods, including food, clean water, shelter, education, healthcare, and employment opportunities. It is closely linked to the standards of living and encompasses economic, social, and psychological aspects that affect individuals and communities. Poverty in India is often experienced as a deprivation of opportunities, leaving people unable to meet their basic needs and to participate fully in society.

The Indian government has traditionally defined poverty using an income-based threshold known as the 'poverty line'. This poverty line represents a minimum level of consumption expenditure necessary for survival and basic well-being. Individuals whose income falls below this threshold are classified as living in poverty. Over the years, the poverty line has been adjusted for changes in prices and consumption patterns to reflect the evolving economic environment. The most widely used measure of poverty is based on the consumption expenditure data collected by national surveys.

#### 1.3.3.2 Causes of Poverty in India

Poverty in India is the result of a complex interplay of historical, socio-economic, and structural factors. The persistence of poverty can be traced to various causes that have compounded over time, hindering efforts for sustainable development.



- ◆ **Historical Factors:** India's colonial past left a lasting imprint on its economic and social structure. British colonial policies systematically exploited the country's resources, suppressed indigenous industries, and drained wealth from the nation. These policies entrenched deep socio-economic inequalities that continue to affect the country today. The caste system, which dates back to ancient times, further exacerbated these disparities. The lower castes, particularly the Scheduled Castes and the Scheduled Tribes, have historically been marginalised and continue to suffer from exclusion, discrimination, and limited access to resources, entrenching poverty across generations.
- ◆ **Population Growth:** India's rapid population growth has added considerable strain on its resources and infrastructure. From a population of around 361 million in 1951, the country's population has surged to over 1.4 billion today. While population growth is often seen as a sign of improvement, it has created immense pressure on critical resources such as food, water, healthcare, and housing. As the population increases, competition for these resources intensifies, contributing to poverty. Additionally, urbanisation has led to the creation of slums and informal settlements where a large portion of the impoverished population resides, exacerbating the urban poverty problem.
- ◆ **Unemployment and Underemployment:** Unemployment remains a significant contributor to poverty in India. While the formal sector has expanded, a vast majority of the workforce is employed in the informal sector, which is characterised by low wages, poor working conditions, and job insecurity. Informal workers lack access to social security benefits, making them highly vulnerable to economic fluctuations. Additionally, the lack of well-paying formal job opportunities, especially in rural and semi-urban areas, further limits economic mobility and keeps poverty levels high. Underemployment, where individuals are employed in jobs that do not fully utilise their skills or provide adequate compensation, also contributes to widespread poverty.
- ◆ **Education and Skill Deficiency:** Education plays a critical role in breaking the cycle of poverty, but many segments of India's population still lack access to quality education. Although literacy rates have improved, disparities in educational access persist, particularly in rural areas. A significant portion of the population, especially in underprivileged regions, does not have access to quality education, which severely limits their potential for higher-paying employment. Moreover, there is a mismatch between the skills provided by the education system and the demands of the labour market. Inadequate vocational training and gaps in higher education further exacerbate the poverty problem by restricting the employability of millions.
- ◆ **Inequality and Social Stratification:** India remains one of the most unequal countries in terms of income distribution. While the country has seen a rise in its middle class, wealth is highly concentrated among a small elite. The benefits of economic growth have largely been confined to urban areas, leaving rural populations behind. The gap between the rich and the poor has been widening, and despite rapid economic growth, poverty remains widespread. This inequality, coupled with the lack of access to opportunities for a large portion of the population, perpetuates poverty.

- ◆ **Agrarian Crisis:** A large portion of India's population is still dependent on agriculture, but the sector faces numerous challenges. Low agricultural productivity, reliance on monsoon rains, and inadequate infrastructure contribute to rural poverty. Poor farmers often struggle with high levels of debt and limited access to modern technology and capital. The agrarian crisis, marked by low incomes and high vulnerability, has driven many rural communities into persistent poverty. The lack of government support and modern farming practices continues to undermine the economic security of millions of farmers, further entrenching poverty in rural areas.

These factors combine in various ways to create a persistent cycle of poverty in India. Addressing these causes requires a comprehensive and inclusive approach that targets not just income but also education, health, and social empowerment.

### 1.3.3.3 Consequences of Poverty in India

The effects of poverty in India are extensive, influencing individuals, communities, and the country as a whole in numerous ways. The consequences are multifaceted and create a cycle that is difficult to break.

- ◆ **Health and Nutrition :** One of the most significant consequences of poverty is its detrimental impact on health. People living in poverty often lack access to basic healthcare services, which results in poor health outcomes. Malnutrition is widespread, affecting physical growth and cognitive development, particularly among children. Poor sanitation and limited access to clean drinking water contribute to the spread of preventable diseases such as diarrhoea and respiratory infections. Without access to essential medications, many individuals suffer unnecessarily, and avoidable deaths occur, further entrenching the cycle of poverty. Ill health, in turn, restricts an individual's ability to work, exacerbating financial struggles and preventing economic mobility.
- ◆ **Educational Outcomes :** Poverty directly hinders access to quality education. For many children from poor families, education becomes a secondary priority as they are often compelled to drop out of school to contribute to the family income. The inability to afford school fees, uniforms, or even basic materials also limits educational opportunities. As a result, these children are deprived of the skills and knowledge necessary to escape poverty. The lack of education perpetuates the poverty cycle, with future generations facing the same hardships. The education gap also limits overall human capital development, further hindering the country's progress.
- ◆ **Social Unrest and Crime:** Persistent poverty is a key driver of social instability and can fuel crime. When basic needs such as food, shelter, and security are not met, frustration and disillusionment grow. In these conditions, individuals may resort to crime as a means of survival, creating an environment of insecurity. Additionally, the lack of opportunities and economic exclusion of the poor can breed resentment, leading to social unrest. These tensions can manifest in protests, violence, and increased crime rates, all of which disrupt social harmony and affect national peace and security.



- ◆ **Impact on Economic Growth** : Poverty also has a significant negative effect on a country's economic growth. A large portion of the population living in poverty is unable to contribute effectively to the economy due to limited access to education, healthcare, and employment opportunities. This reduces the productive potential of the nation, stunting overall economic output. Furthermore, poverty limits access to markets, as impoverished individuals cannot afford to purchase goods and services. This reduced demand stifles business growth, leading to a slowdown in economic activity. In this way, poverty becomes both a result and a contributor to slow economic development, limiting India's ability to achieve sustainable and inclusive growth.

### 1.3.3.4 Measures to Alleviate Poverty in India

The Indian government has introduced various programmes and policies to address the pervasive issue of poverty. These initiatives are multifaceted, targeting a wide range of factors such as income redistribution, enhanced access to education and healthcare, and the creation of employment opportunities.

- ◆ **Poverty Alleviation Programmes** : The government has launched several key initiatives to reduce poverty, including the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which guarantees wage employment for rural households. MGNREGA aims to provide livelihoods to the rural poor, especially during the off-season when employment opportunities are scarce. Additionally, programmes like the Public Distribution System (PDS), Jan Dhan Yojana, and Pradhan Mantri Awas Yojana are designed to tackle different aspects of poverty. PDS ensures food security, Jan Dhan Yojana promotes financial inclusion by providing banking services to the unbanked, and Pradhan Mantri Awas Yojana focuses on providing affordable housing for the poor, helping them move out of inadequate living conditions.
- ◆ **Social Welfare Programmes**: Several social welfare schemes have been rolled out to provide basic services to the marginalised. The Ayushman Bharat health insurance program aims to provide financial protection for low-income families by covering medical expenses, especially for catastrophic illnesses. The POSHAN Abhiyaan (National Nutrition Mission) focuses on improving nutrition outcomes, particularly for women and children, to tackle malnutrition. Moreover, the National Social Assistance Program provides cash transfers to elderly, disabled, and destitute individuals, improving their living standards and reducing poverty.
- ◆ **Microfinance and Self-Help Groups (SHGs)** : To empower women and marginalised communities, the government has encouraged microfinance institutions and Self-Help Groups (SHGs), particularly in rural areas. These groups offer small loans to low-income individuals, enabling them to start small businesses or improve existing livelihoods. The success of SHGs, especially in empowering women, has been significant, as it not only provides financial support but also promotes social inclusion and participation. These programmes have proven to be effective in increasing financial access and independence among rural families.

- ◆ **Education and Skill Development** : The government has emphasised the importance of education and skill development to break the cycle of poverty. The Right to Education Act ensures free and compulsory education for children, aiming to improve literacy rates and provide the foundation for future employment. In parallel, the National Skill Development Mission and various state-level initiatives focus on enhancing vocational skills, particularly among youth and adults, to make them employable. By offering both formal education and vocational training, these initiatives aim to increase the workforce's employability, reduce skill gaps, and ultimately lower poverty rates over the long term.
- ◆ **Inclusive Growth Policies** : To ensure that economic growth benefits all sections of society, the government has adopted policies aimed at promoting inclusive growth. These strategies focus on sectors like agriculture, textiles, and small-scale industries, which are crucial for rural development. By investing in infrastructure, promoting rural industries, and developing agricultural capabilities, the government seeks to create employment opportunities in rural areas and ensure that the benefits of economic development are distributed more evenly across society.

In conclusion, the Indian government has made significant strides in alleviating poverty through various targeted measures. By addressing the interconnected aspects of poverty, such as employment, education, healthcare, and financial inclusion, these programmes have helped improve the living conditions of millions of people and have the potential to continue reducing poverty in India.

## Recap

- ◆ Demographic transition refers to the evolution of a country's population characteristics over time
- ◆ India has transitioned from Stage 1 to Stage 3 of the demographic transition model
- ◆ Declining mortality and fertility rates have significantly changed India's demographic profile
- ◆ India's population growth rate has slowed down due to declining fertility rates
- ◆ India has a significant demographic dividend with over 65% of its population in the working-age group
- ◆ Realising the demographic dividend requires investments in education, healthcare, and skill development
- ◆ Government programmes like MGNREGA, PDS, and Jan Dhan Yojana aim to alleviate poverty

- ◆ Social welfare schemes like Ayushman Bharat and POSHAN Abhiyaan provide basic services to marginalised communities
- ◆ Education and skill development are crucial to breaking the poverty cycle
- ◆ Inclusive growth policies promote investments in infrastructure, rural development, and social welfare

## Objective Questions

1. What is the term for the evolution of a country's population characteristics over time?
2. How many stages are there in the demographic transition model?
3. Which stage of the demographic transition model is India currently in?
4. What is the term for the economic growth potential arising from a shift in a country's age structure?
5. What percentage of India's population is in the working-age group?
6. What is required to realise the demographic dividend?
7. How many people live below the national poverty line in India?
8. What are the main factors contributing to poverty in India?
9. What are the consequences of poverty in India?
10. What is the name of the government program that aims to provide employment opportunities to rural households?
11. What is the name of the social welfare scheme that provides health insurance to poor families?
12. What is the importance of education and skill development in poverty alleviation?
13. What is the term for promoting investments in infrastructure, rural development, and social welfare?
14. Which community is most affected by poverty in India?
15. What is the main goal of poverty alleviation programmes in India?

## Answers

1. Demographic transition
2. 4
3. Stage 3
4. Demographic dividend
5. 65%
6. Investments in education and healthcare
7. 364 million
8. Historical and socio-economic factors
9. Poor health and limited education
10. MGNREGA
11. Ayushman Bharat
12. It breaks the poverty cycle
13. Inclusive growth
14. Marginalised community
15. To reduce poverty and inequality

## Assignments

1. Describe the four stages of the demographic transition model.
2. What is the demographic dividend? Discuss the investments required to realise this dividend.
3. Discuss the concept of poverty and its various dimensions.
4. Explain the measures to alleviate poverty.
5. Describe the consequences of poverty in India?

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**BLOCK**

# **Development Strategy of India since 1950**



# UNIT

## Economic Development Strategy and Industrialisation

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ discuss the importance of economic development strategies
- ◆ explain how government plans and policies helped industries grow
- ◆ assess the development strategies adopted in India

### Prerequisites

Economic development refers to a long-term and systematic process through which a nation strives to enhance the economic, social, and technological well-being of its people. At the time of independence in 1947, India was confronted with a backward economic structure dominated by agriculture, low levels of industrialisation, and a weak production base. The colonial administration had neglected industrial and infrastructural progress, resulting in widespread poverty, unemployment, and inadequate access to essential services. The country's heavy reliance on foreign goods and limited technological capabilities further constrained growth. To overcome these inherited economic challenges and ensure the upliftment of living standards, the newly formed government focused on a carefully planned development approach. The idea was to use resources effectively, accelerate production, and address social and regional disparities.

Industrialisation was recognised as the key driver for achieving these objectives. By promoting industries, India aimed to modernise its economy, generate employment in non-agricultural sectors, reduce import dependence, and build technological strength. A mixed economy model was adopted, where both public and private sectors contributed to development under the guidance of the state. The Five-Year Plans were introduced as the main tool to implement this strategy-initially emphasising agriculture, irrigation, and power, and later

prioritising heavy industries and capital goods. With the economic reforms of 1991, the strategy shifted toward liberalisation, privatisation, and globalisation to enhance efficiency and global competitiveness. Studying this progression of India's economic development strategy highlights how policy decisions, structural reforms, and industrial advancement transformed the nation into a more diversified and fast-growing economy.

## Keywords

Industrialisation, Structural Transformation, Mixed Economy, Self-Reliance, Import Substitution, Balanced Regional Development, Export Promotion

## Discussion

### 2.1.1 Strategy for Economic Development

Economic development can be understood as a broad and continuous process through which a country enhances the economic, political, and social welfare of its citizens, aiming for sustained improvements in living standards, productivity, and overall quality of life. It goes beyond the mere increase in national income or output to include structural transformation of the economy, technological progress, institutional reforms, and equitable distribution of resources.

When India gained independence in 1947, the nation faced the enormous challenge of rebuilding an economy that was largely agrarian, stagnant, and dependent on colonial trade patterns. The country suffered from low levels of industrialisation, inadequate infrastructure, widespread poverty, and unemployment. To overcome these constraints and achieve a self-sustaining pattern of growth, India adopted a carefully planned strategy for economic development.

The government recognised that industrialisation was vital for transforming the economic base, generating large-scale employment, reducing dependence on imports, and fostering technological advancement. Thus, the focus of India's development strategy was on planned economic growth, in which the state played a guiding role through systematic planning, resource mobilisation, and policy intervention. Industrialisation became the central element of this approach, aimed at building a modern, diversified, and self-reliant economy capable of supporting long-term national progress and social welfare.

A development strategy serves as a long-term framework that defines how a nation plans to achieve sustainable economic growth and overall progress. After independence, India faced the daunting challenge of rebuilding a weak and underdeveloped economy that was primarily dependent on agriculture and colonial trade patterns. To address these



issues, Indian planners adopted a structured approach based on economic planning, industrialisation, and social welfare. This strategy aimed not only at accelerating economic growth but also at ensuring equity and balanced regional development. The major objectives guiding India's economic development strategy are discussed below.

- 1. Rapid Economic Growth :** The foremost aim of India's post-independence strategy was to attain rapid economic growth. Low national income, widespread poverty, and low levels of productivity characterised the Indian economy at that time. To raise living standards and create a strong economic base, it was essential to accelerate the pace of growth in key sectors such as agriculture, industry, energy, and infrastructure. The Five-Year Plans emphasised higher investment and improved productivity to achieve this objective. Rapid growth was viewed as the foundation for generating additional resources, increasing employment, and laying the groundwork for self-sustained economic progress.
- 2. Self-Reliance :** Achieving self-reliance was another core component of India's development strategy. The colonial experience had made India heavily dependent on foreign countries for capital goods, technology, and industrial products. National leaders realised that genuine independence required economic autonomy. To this end, policies promoting import substitution, indigenous production, and domestic technological capability were adopted. The establishment of heavy industries, scientific research institutions, and public sector enterprises formed part of this vision. Self-reliance was intended to reduce dependence on imports, strengthen domestic production, and safeguard the economy from external shocks.
- 3. Social Justice :** Alongside economic progress, India sought to ensure social justice - a fair and equitable distribution of income, wealth, and opportunities among all citizens. The economy inherited deep-rooted inequalities based on class, caste, and region. Planners recognised that growth without fairness would not lead to true development. Therefore, measures such as land reforms, progressive taxation, universal education, health services, and targeted welfare programmes were introduced to uplift disadvantaged groups. The goal of social justice was to build an economy that was both prosperous and inclusive, ensuring that the benefits of development reached the poorest sections of society.
- 4. Employment Generation :** Another crucial objective was employment generation. The Indian economy at the time of independence suffered from widespread unemployment and underemployment, particularly in rural areas. With a fast-growing population, creating productive work opportunities became a national priority. Industrialisation was viewed as a powerful means to absorb surplus labour from agriculture and to expand jobs in manufacturing and services. The Five-Year Plans promoted labour-intensive industries, cottage and small-scale enterprises, and rural development programmes to provide sustainable employment. This approach aimed not just to create jobs, but to enable people to lead dignified and self-sufficient lives.

- 5. Balanced Regional Development :** India's development strategy also emphasised balanced regional growth to reduce inequalities among different parts of the country. Some regions inherited better infrastructure and industrial bases, while others remained backward. To correct this imbalance, government policies encouraged investment in less developed areas through industrial licensing, subsidies, and public sector undertakings. Infrastructure development, such as roads, power, and irrigation, was also directed toward backward regions. The ultimate goal was to ensure that all states and regions could share equally in the nation's progress, fostering social harmony and national unity.

India's economic development strategy after independence was designed to achieve growth with equity. It sought to combine rapid industrialisation with self-reliance, social justice, employment creation, and balanced regional development. Guided by systematic planning and state intervention, this approach laid the foundation for transforming India from a colonial, agrarian economy into a modern, diversified, and self-sustaining one.

## 2.1.2 Industrialisation as a Development Strategy

Industrialisation was regarded as a vital component for transforming India's predominantly agrarian economy into a modern and diversified one. It was seen as the driving force behind economic growth, technological progress, and overall development. By developing industries, the economy could move from traditional, low-productivity sectors to modern, high-productivity ones, leading to higher incomes and improved living standards. Recognising its transformative potential, India placed industrialisation at the centre of its economic development plans from the very beginning of the planning era.

- 1. Promotes Large-Scale Production and Efficiency :** Industrialisation enables the use of advanced machinery, division of labour, and modern production techniques that allow for large-scale manufacturing of goods. Mass production leads to economies of scale - lowering the cost per unit and improving efficiency and competitiveness. Through industrial expansion, India aimed to produce essential goods domestically, meet growing consumer demand, and build a strong base for self-sustained growth. Large-scale industries also create linkages with smaller enterprises, thus promoting overall productivity in the economy.
- 2. Creates Employment Opportunities in Non-Agricultural Sectors :** One of the most significant contributions of industrialisation is its potential to generate employment beyond the agricultural sector. At independence, a large portion of India's population was engaged in low-productivity farming. Industrial development provided opportunities for people to shift to more productive jobs in manufacturing, mining, transport, and services. This structural shift from agriculture to industry helped reduce disguised unemployment in rural areas and contributed to urbanisation and skill development. As industries expanded, they absorbed a growing workforce, thereby raising income levels and improving living standards.



- 3. Provides a Strong Base for Infrastructure and Technology :** Industrial growth is closely linked with the development of infrastructure and technology. The establishment of industries such as steel, cement, power, and engineering created the foundation for building roads, bridges, transport networks, and energy systems - essential components for economic progress. Moreover, industrialisation encouraged technological innovation, research, and skill enhancement, which in turn improved productivity across other sectors of the economy. By investing in capital goods and heavy industries, India sought to build the technological capabilities necessary for self-reliant development.
- 4. Increases Exports and Reduces Import Dependency :** Industrialisation strengthens a country's capacity to produce goods that can be exported, earning valuable foreign exchange. At the same time, domestic production of essential goods reduces dependence on imports. In the early years after independence, India relied heavily on imported machinery and manufactured products. The development of industries such as textiles, chemicals, and engineering goods helped the nation substitute imports with home-produced goods and gradually expand its export base. This shift improved India's balance of payments and contributed to economic self-sufficiency.
- 5. Stimulates Agricultural Growth through Demand for Raw Materials and Inputs :** Industrialisation and agriculture are interdependent sectors. The expansion of industries creates greater demand for agricultural raw materials such as cotton, jute, sugarcane, and oilseeds, thereby stimulating agricultural production. In return, industries supply essential inputs to agriculture, including fertilisers, machinery, tools, and irrigation equipment. This mutual relationship helps both sectors grow in a complementary manner. Industrial progress also enhances rural incomes through the development of agro-based industries and improved market linkages between rural and urban economies.

### 2.1.2.1 Role of Government in Industrial Development

Industrial development is a major driving force behind economic progress and modernisation. It helps a country move from a traditional agrarian economy to a diversified and technologically advanced structure. In the Indian context, industrialisation has been considered essential for generating employment, increasing national income, boosting exports, and improving the overall standard of living. To achieve these goals, the government plays an extensive role in shaping and supporting industrial development through its policies, investments, infrastructure creation, and regulatory mechanisms.

A primary responsibility of the government is the design and implementation of industrial policies. These policies guide the functioning and growth of various industrial sectors. For example, the Industrial Policy of 1956 laid the foundation for expanding the public sector, considering it essential for controlling commanding heights of the economy. Later, the Industrial Policy of 1991 revolutionised India's industrial framework by introducing liberalisation, privatisation, and globalisation, which reduced excessive government control, promoted private enterprises, and encouraged foreign direct investment (FDI). Recently, initiatives such as 'Make in India', 'Digital India',

'Production Linked Incentive (PLI)' scheme, Start-up India, and Atmanirbhar Bharat Abhiyan have been launched to strengthen domestic production and reduce import dependence.

Another major contribution of the government lies in developing industrial infrastructure, which is fundamental for the smooth operation of industries. This includes availability of uninterrupted power supply, transportation networks like highways, ports, airports, railways, telecommunication facilities, and industrially planned areas. Special Economic Zones (SEZs), Export Processing Zones (EPZs), and industrial corridors such as the Delhi-Mumbai Industrial Corridor (DMIC) have been set up to encourage global-level manufacturing facilities. These infrastructural initiatives reduce production costs and expand market access for industries, making them more competitive.

The government also plays a supportive role through financial assistance and incentives. Long-term and affordable credit is provided to industries through financial institutions such as IDBI, EXIM Bank, SIDBI, NABARD, and State Financial Corporations. Special schemes offer tax rebates, export benefits, subsidies, and low-interest loans, especially targeting Micro, Small, and Medium Enterprises (MSMEs). The MSME sector is crucial as it contributes nearly 30% to India's GDP, around 45% of exports, and generates vast employment opportunities. In addition, Public Sector Undertakings (PSUs) like SAIL, ONGC, BHEL, NTPC, and Indian Railways operate in key areas that require large investment and advanced technology, helping the nation maintain strategic self-reliance.

Technological advancement and skill enhancement form the backbone of industrial competitiveness. The Government of India promotes research and innovation through top-tier scientific organisations such as CSIR, DRDO, and ISRO, which contribute to breakthroughs in engineering, space technology, and defence. Training and educational facilities like Industrial Training Institutes (ITIs), Polytechnics, and the Skill India Mission develop a capable and skilled workforce to meet growing industrial demands. This helps industries adopt modern technology and improve productivity levels.

In addition to promoting growth, the government also ensures that industrial development occurs in a balanced and responsible manner. Environmental protection laws such as the Air (Prevention and Control of Pollution) Act (1981) and the Environmental Protection Act (1986) safeguard natural resources from industrial damage. Labour laws secure fair wages, safety, and welfare of workers. Competition policy prevents monopolies and ensures consumer choice. The government also safeguards consumer rights by ensuring standards and quality control through organisations like BIS and FSSAI.

A vital objective of government participation is to reduce regional disparities. Historically, industrial concentration was seen in states like Maharashtra, Gujarat, and Tamil Nadu. To ensure fair development opportunities across the country, special incentives and subsidies are provided for setting up industries in backward regions such as the North-Eastern states, hill areas, and tribal regions. This approach helps decentralise industrial expansion, generate local employment, and prevent overcrowding in developed cities.



### 2.1.2.2 India's Industrialisation

While the share of the primary sector in India's GDP has declined significantly - from over 50 per cent in the 1950s to around 16–20 per cent in recent fiscal years (about 19.9 per cent in 2023 and approximately 19.7 per cent in FY 2024–25)-agriculture and allied activities continue to play a vital role. The sector remains crucial for food security, raw material supply, and rural livelihoods. Most importantly, agriculture still employs nearly half of India's workforce, indicating that the economy remains heavily agrarian in terms of employment. Roughly half of India's population continues to depend directly or indirectly on agriculture, highlighting its enduring importance as the backbone of rural India despite its declining contribution to GDP.

India's relatively slower pace of industrialisation, when compared with advanced industrial economies, can be attributed to a combination of historical, institutional, and policy - related factors. The country's democratic and federal governance structure, while ensuring political stability and representation, has often resulted in complex bureaucratic processes, coalition politics, and implementation challenges. Issues such as land acquisition constraints, regulatory rigidity, and infrastructural bottlenecks have delayed or discouraged large-scale industrial and manufacturing investments. Inadequate physical infrastructure and uneven investment patterns have further constrained industrial expansion.

Another significant limitation has been insufficient investment in human capital formation. Historically, India lagged behind in universal access to quality education, healthcare, and skill development, particularly for women. Low female labour force participation and persistent skill gaps reduced the availability of a healthy, trained, and disciplined workforce required for labour-intensive industrialisation. As a result, India could not fully leverage its large population for mass manufacturing-driven growth.

Moreover, unlike many East Asian economies, India did not pursue a strong export-oriented manufacturing strategy capable of absorbing surplus labour from agriculture. Post-1991 economic growth, though rapid and globally integrated, has been driven largely by the services sector - especially information technology and software services. While this sector has contributed significantly to GDP growth and foreign exchange earnings, it is not sufficiently employment-intensive to address the needs of India's vast labour force. Manufacturing, which traditionally acts as the main channel for large-scale job creation during industrialisation, has remained relatively underdeveloped.

Deep-rooted social institutions such as the caste system and religious stratification have also constrained India's industrial progress. These hierarchies limited social mobility, restricted access to education and capital, and discouraged entrepreneurship among large sections of the population. The rigid occupational structure associated with caste often confined individuals to low-productivity activities, leading to the misallocation of labour and capital. Despite subsequent reforms and liberalisation, the long-term effects of these institutions continue to influence economic outcomes and have slowed structural transformation.

## 2.1.3 Mixed Economy

A mixed economy is an economic system that combines the characteristics of both capitalism and socialism, integrating private enterprise with government regulation and ownership. In this system, both the state and private individuals participate in economic decision-making and production activities. The mixed economy seeks to harness the advantages of the market mechanism such as efficiency, competition, and innovation while also ensuring social welfare, equitable distribution of income, and economic stability through state intervention. India adopted the mixed economy model after independence, as it was viewed as the most practical approach to achieving rapid growth with social justice in a democratic framework. The features of a mixed economy are discussed below.

- 1. Coexistence of Public and Private Sectors :** One of the most important features of India's mixed economy is the coexistence of public and private sectors. Both sectors play complementary roles in the process of economic development. The public sector was assigned responsibility for controlling and managing key industries that are vital for national interest and economic security, such as defence, railways, steel, power generation, mining, and heavy machinery. These areas were considered too important or capital-intensive to be left to private hands. The private sector, on the other hand, was encouraged to participate in sectors such as consumer goods, light manufacturing, trade, and services. This division of responsibilities helped ensure that while the state maintained control over strategic industries, private enterprises could contribute to growth, competition, and innovation in other areas of the economy.
- 2. Government Regulation :** In a mixed economy, government regulation plays a crucial role in guiding and balancing the functioning of the market. In India, the state used planning and policy instruments to direct economic activity, control monopolies, and prevent market failures. Through mechanisms such as industrial licensing, taxation policies, and investment priorities, the government sought to ensure that private enterprises operated in alignment with national development goals. The Industrial Policy Resolutions of 1948 and 1956, for instance, defined the scope of public and private sector activities and emphasised state participation in key industries. By using regulatory tools, the government ensured that economic activities promoted social welfare, maintained stability, and prevented the concentration of wealth in a few hands.
- 3. Social Justice and Welfare Orientation :** A distinctive feature of India's mixed economy is its emphasis on social justice and welfare orientation. The state plays an active role in reducing inequalities of income and wealth, eradicating poverty, and providing basic amenities such as education, healthcare, and housing. Economic policies and Five-Year Plans were designed to achieve not just growth, but inclusive development, ensuring that the benefits of progress reach all sections of society. Programmes for rural development, employment generation, and social security were implemented

to uplift the weaker sections and bridge the rural–urban divide. Thus, India’s mixed economy aimed to combine the efficiency of a market-driven system with the social objectives of equity and welfare that are characteristic of socialism.

- 4. Market Mechanism with State Intervention :** In a mixed economy, the market mechanism operates alongside state intervention. Prices and production decisions are influenced by both supply and demand in the market as well as by government policies. The market ensures efficiency and consumer choice, while state intervention corrects imbalances and protects public interests. In India, this meant that while private enterprises were largely guided by profit motives and market conditions, the government intervened through planning, subsidies, price controls, and public investment to maintain stability and prevent exploitation. This balanced approach allowed the economy to benefit from the dynamism of the private sector while safeguarding national priorities and social welfare.

India adopted the mixed economy model to create a balance between economic efficiency and social equity. It allowed the private sector to drive growth and innovation while the state ensured fairness, stability, and social welfare through regulation and public ownership of key industries. This system was instrumental in shaping India’s post-independence development by combining the strengths of capitalism and socialism, fostering both industrial expansion and social progress within a democratic framework.

## 2.1.4 Five-Year Plans

India’s Five-Year Plans (1951–2017) served as the primary instruments for executing its development strategy, with industrialisation playing a central role in transforming the economy. Each plan was designed to address the specific challenges of its time while building a foundation for long-term economic growth, social equity, and self-reliance.

The First Five-Year Plan (1951–56) focused predominantly on agriculture, irrigation, and energy development, as the newly independent country faced severe food shortages, low productivity, and inadequate infrastructure. While industrial development was not the immediate priority, investments in power generation, transport, and basic infrastructure helped establish the groundwork necessary for future industrial expansion.

The Second Five-Year Plan (1956–61), guided by the Mahalanobis Model, marked a decisive shift toward industrialisation. It emphasised the development of heavy industries and capital goods sectors, such as steel, machinery, and power, which were crucial for creating a self-reliant industrial base. Large public sector enterprises were established, and the plan reinforced the concept of a mixed economy where the state took the lead in strategic sectors while the private sector operated in consumer goods and other industries.

The Third to Fifth Plans (1961–1979) continued the process of industrial expansion, with greater attention to self-reliance, import substitution, and balanced regional development. These plans sought to reduce dependency on foreign imports, encourage domestic production, and ensure that industrial growth extended to backward and underdeveloped regions. Despite facing challenges such as wars, droughts, and

economic instability, these plans reinforced India's commitment to industrialisation as a vehicle for overall development.

During the latter plans of the 1980s, emphasis gradually shifted toward technological modernisation, productivity enhancement, and global competitiveness, with policies encouraging private sector participation, technological innovation, and efficiency improvements in industrial operations.

A major transformation occurred after 1991, when India faced a severe balance of payments crisis and initiated the era of Liberalisation, Privatisation, and Globalisation (LPG). The planning approach evolved from a centrally controlled, state-led model to a market-oriented strategy, encouraging private sector growth, reducing government intervention in non-strategic industries, and promoting foreign direct investment (FDI). This transition allowed Indian industries to integrate with the global economy, adopt modern technologies, and become more competitive internationally.

The Eleventh Five Year Plan (2007–2012) focused on inclusive industrial growth, strengthening manufacturing, skill development, and improving infrastructure to support industrial expansion. The Twelfth Five Year Plan (2012–2017) further emphasised faster and sustainable industrial growth by promoting innovation, competitiveness, ease of doing business, and greater participation of the private sector and foreign investment. Over the decades, India's Five-Year Plans evolved from focusing on state-led industrialisation and infrastructure creation to emphasising efficiency, technological progress, and market-driven growth, while consistently maintaining industrial development as a key driver of economic transformation.

## Recap

- ◆ After gaining independence in 1947, India faced the challenge of rebuilding a weak, agrarian economy
- ◆ To promote growth and equity, the country adopted a planned development strategy led by the government
- ◆ The main goals included rapid economic growth, self-reliance, social justice, employment generation, and balanced regional development
- ◆ Industrialisation became the core of this strategy, as it was seen as essential for transforming the economy, creating jobs, boosting exports, and developing infrastructure
- ◆ The government played a leading role through public sector enterprises, industrial policies, and Five-Year Plans to build a modern and diversified industrial base
- ◆ India adopted a mixed economy model that combined the efficiency of private enterprise with the welfare and regulatory role of the state

- ◆ The mixed economy model ensured both economic efficiency and social equity
- ◆ The Five-Year Plans (1951–2017) served as the main instruments for implementing this strategy
- ◆ The First Plan focused on agriculture and infrastructure, while the Second Plan, based on the Mahalanobis Model, emphasised heavy industries and capital goods
- ◆ Later plans worked toward self-reliance, regional balance, and technological progress
- ◆ A major shift occurred in 1991 with the introduction of Liberalisation, Privatisation, and Globalisation (LPG), moving from state-controlled planning to a market-oriented approach
- ◆ This reform period encouraged private sector growth, foreign investment, and global integration, laying the foundation for India's transformation into a modern and competitive economy

## Objective Questions

1. Which model guided the Second Five-Year Plan?
2. What was India's economic system after independence?
3. What was the main focus of the First Five-Year Plan?
4. What replaced the controlled economic model in 1991?
5. Which sector was prioritised for national security and basic industries?
6. What type of growth did planners aim for, along with equity?
7. Which term refers to domestic production replacing foreign imports?
8. What economic policy aimed to attract foreign investment post-1991?
9. What was the central element of India's development strategy?

## Answers

1. Mahalanobis
2. Mixed
3. Agriculture
4. Liberalisation
5. Public
6. Balanced
7. Substitution
8. Globalisation
9. Industrialisation

## Assignments

1. What is meant by economic development? Explain India's development strategy after Independence.
2. Explain the concept of a Mixed Economy. Why did India adopt this model?
3. Describe the objectives of industrialisation in India.
4. What are Five Year Plans? Discuss their role in India's economic development.
5. Briefly explain the achievements and limitations of India's industrialisation strategy.

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## UNIT

# Agricultural Strategy

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ discuss how India's farming methods changed after independence
- ◆ comprehend why the government brought new agricultural policies
- ◆ describe the successes and problems of the Green Revolution and White Revolution in India
- ◆ explain the importance of the Second Green Revolution

### Prerequisites

The development of agriculture in India has always been a central theme in the nation's economic discourse, given its deep connection with food security, employment, and overall growth. Since independence, India has witnessed remarkable progress in the agricultural sector through rising crop production, technological innovations, and diversification of crops. Despite this, agricultural growth has often been inconsistent and challenging. The share of agriculture in India's GDP has steadily declined, from about 52% in the 1950s to less than 20% after 2010, yet it continues to remain the backbone of the Indian economy, employing a large share of the population. As per the Census 2011, around 55% of the workforce was engaged in agriculture and allied sectors. Over the years, agricultural productivity has faced several obstacles, such as low land and labour productivity, dependence on imports for essential food grains in the early years, and later, issues like stagnation in growth, migration of rural workers, and farmers' distress. The slowdown in the 1990s and 2000s, particularly in food grain production, raised serious concerns about food security and long-term sustainability, making agricultural reform an ongoing national priority.



Agriculture continues to play a crucial role in promoting industrial growth, generating employment, reducing rural poverty, and ensuring economic stability. Recognising its significance, the Government of India introduced a series of policy measures and technological revolutions that transformed the sector. The Green Revolution (1960s–1980s) introduced high-yielding varieties of seeds, modern irrigation, and chemical fertilisers, leading to self-sufficiency in food production. This was followed by the White Revolution in the 1970s, which revolutionised milk production through cooperative movements; the Blue Revolution, which boosted fisheries production; and the Green Revolution in the early 2000s, which enhanced cotton productivity. These efforts were supported by institutional reforms such as the nationalisation of banks, improving agricultural credit and access to finance. While these initiatives transformed India from a food-deficient nation to a net exporter of several commodities, they also underscored the need for a more sustainable ‘Evergreen Revolution’ that balances productivity with environmental conservation. Thus, the evolution of agricultural policy in India reflects an ongoing pursuit of food security, economic strength and equitable rural development.

## Keywords

New Agricultural Strategy, Intensive Cultivation, Agricultural Credit, Nationalisation, Evergreen Revolution, Operation

## Discussion

### 2.2.1 Agricultural Strategy

Agriculture is very important for India because most people depend on it for their livelihood, especially in rural areas where most of the poor live. Before independence, agriculture suffered because the British focused only on export crops and ignored the needs of farmers. There were no proper roads, irrigation, storage, or modern farming methods, and farmers were exploited by landlords like Zamindars. So, at the time of independence, India was left with a weak agricultural sector. To improve this situation, the Five-Year Plans aimed to modernise agriculture by introducing better technology, irrigation, fertilisers, credit facilities, and important institutional changes.

According to the Central Statistics Office (CSO) 2014 report, India’s agricultural growth remained low and continued to fall during the period from 1950-51 to 1967-68. The Green Revolution started in 1966, and from 1968-69 onwards, agricultural production increased due to improved technology and better farming practices. During the next decade, the growth rate reached around 3% and continued to perform well until the mid-1990s, peaking around 1996-97. However, from 1997-98 to 2005-06, agricultural growth slowed down again because resources were shifted to other sectors of the economy. In recent years, especially during the 11th Five-Year Plan, agriculture

showed signs of recovery with growth rates rising above 3%. Overall, agriculture experienced ups and downs, with strong growth after the Green Revolution but a noticeable slowdown in the post-reform period before recovering again.

By the early 1960s, India was struggling with food shortages and low agricultural productivity, prompting the need for a new strategy to ensure food security and self-sufficiency. This transformation began during the Third Five-Year Plan and gained momentum between 1961 and 1969, a period that proved crucial for Indian agriculture.

The government introduced the Intensive Agricultural District Programme (IADP) in 1960–61, initially covering three districts and later expanding to thirteen states. The core idea was to focus on regions with the most favourable conditions for agriculture, essentially 'betting on the strong', to maximise food grain output. This approach was accompanied by the adoption of modern farming techniques, such as the use of high-yielding variety (HYV) seeds, chemical fertilisers, pesticides, and improved irrigation methods. These innovations collectively ushered in the Green Revolution, leading to a significant rise in food production, especially of wheat and rice, and fundamentally changing the structure and outlook of Indian agriculture.

Why was there a need for the new strategy in Indian Agriculture?

Before, the planning in the Indian economy did nothing much to improve agricultural productivity. This new strategy was seen as a revolutionary step to change agricultural productivity and make India self-sufficient in food grain production.

- ◆ The scientists and policymakers who supported the Green Revolution saw the intensive approach to agriculture as the only way to cause a breakthrough in Indian agriculture in a very short time period
- ◆ As India was a large country and inputs in agriculture were limited, it was not possible to make it available to the entire country. The best choice was to use concentrated doses of seeds and fertilisers in selected areas so that the yield could be maximised in the shortest possible time
- ◆ The main goal of policymakers was to make India self-sufficient in food grain production. This again would be an effective strategy to practice
- ◆ Demonstration of better cultivation techniques yielding good results would actually encourage other farmers to adopt intensive cultivation. This could increase total productivity in Indian agriculture
- ◆ Whenever there is an increase in agricultural production, it would have certain spillover effects. For e.g., increased production of commercial crops in a region would lead to the development of agro-based industries
- ◆ The agriculture sector is considered very vulnerable in India because it is a sector where demand will only keep on increasing, and supply will always be volatile with so many structural factors and others like monsoon dependence, as only 40 per cent land is irrigated



### 2.2.1.1 Objectives of Agricultural Strategy

The agricultural strategy in India aims to improve the farming sector in a balanced and sustainable way. It mainly focuses on solving major issues faced by farmers, such as low production, poor income, and a lack of modern technology. By setting clear goals, the government wants to make more food available, develop rural areas, and ensure that farming becomes a more profitable and secure occupation.

The key objectives of agricultural strategy include;

- ◆ To make the country self-reliant in food production and avoid dependence on imports
- ◆ To increase agricultural output by improving crop yields and productivity
- ◆ To alleviate rural poverty by increasing farmers' income and livelihood opportunities
- ◆ To develop irrigation facilities so that farming does not rely solely on monsoons
- ◆ To introduce and promote modern agricultural technologies for efficient farming
- ◆ To strengthen agricultural marketing systems and ensure fair price support to farmers

### 2.2.1.2 Major Components of Agricultural Strategy

To successfully achieve the goals of agricultural development, India introduced several important components that supported the growth of the farming sector. These components focused on improving land use, increasing production, promoting technology, and strengthening farmer welfare. The major components of India's agricultural strategy include;

1. Land reforms such as abolition of the zamindari system and land redistribution
2. Expansion of irrigation canals, tube wells, and dams
3. HYV seed introduction and scientific farming
4. Minimum Support Price (MSP) for farmers' income security
5. Rural credit support through banks and cooperatives
6. Use of fertilisers, pesticides, and farm machinery
7. Agricultural research and training facilities

## 2.2.2 Green Revolution

Understanding the need to increase food grain production in the 1960s, the Indian government introduced the Green Revolution, led by Dr. M. S. Swaminathan. The goal

was to boost the yield of wheat and other cereals by using improved High-Yielding Variety (HYV) seeds. In 1963, the government invited Norman E. Borlaug from Mexico to evaluate the potential of using dwarf wheat varieties in India. Based on his advice, two semi-dwarf varieties, Lerma Rojo and Sonora-64, were introduced for cultivation in irrigated areas. Later, other major HYV varieties like Kalyan Sona, Sonalika, and Sharbati Sonora were also developed and released for farmers.

HYV Programme was expanded to cover the entire country, marking the widespread adoption of what came to be known as modern agricultural technology, often referred to as the seed-fertiliser-water technology or, more popularly, the Green Revolution. The Green Revolution marked a historic turning point in Indian agriculture, transforming it from a subsistence-based, traditional system into a modern and technology-driven sector. This new approach relied heavily on scientific innovation and advanced techniques borrowed from abroad. The introduction of semi-dwarf, high-yielding varieties of wheat developed in Mexico proved particularly suitable for cultivation in Punjab's fertile lands. Additionally, the rapid spread of private tube wells for irrigation played a crucial role in accelerating the adoption of this technology, enabling farmers to achieve higher productivity and transforming the landscape of Indian agriculture.

### 2.2.2.1 Achievements of the New Agricultural Strategies

The new agricultural strategy, or the Green Revolution, led to

- ◆ an increase in the production of cereals
- ◆ a rise in the production of commercial crops
- ◆ a change in crop pattern
- ◆ a boost in agricultural production and an increase in output
- ◆ strengthening forward and backward linkages

**Table 2.2.1 Components of Growth in Food Grains Output**

Year	Area million (hectares)	Production (Million hectares)	Productivity (per Hectare in Kg)
1950-51	97.32	50.82	522
1960-61	115.58	82.02	710
1970-71	124.32	108.42	872
1980-81	126.67	129.59	1073
1990-91	127.84	176.39	1380
1999-2000	123.31	208.9	-----
2000-01	-	196.1	1694

**Source: *Agricultural Statistics at a Glance 2017, DES, Ministry of Agriculture, Government of India.***

Table 2.2.1 clearly shows the steady and transformative growth of food grain production in India from 1950-51 to 2000-01. The major acceleration occurred between 1970-71 and 1980-81, where production and productivity jumped significantly with the implementation of the Green Revolution involving the widespread adoption of HYV seeds, fertilisers, and irrigation. This momentum continued into the later decades by 2000-01. This overall trend showcases a successful shift towards efficiency and technological adoption as the primary driver of growth, resulting in consistently high production levels even as the cultivated area began to stabilise in the later years.

### **Negative Impacts of the Green Revolutions**

Although the Green Revolution played a crucial role in increasing food grain production and ensuring food security in India, it also resulted in several negative impacts that cannot be overlooked. The extensive use of chemical fertilisers, pesticides, and water-intensive crops led to environmental degradation and depletion of natural resources. Additionally, the benefits of the Green Revolution were unevenly distributed, widening regional and socio-economic inequalities. The negative impacts of the Green Revolution are as follows:

1. Benefits were limited to a few states like Punjab and Haryana.
2. Focus mainly on wheat and rice; pulses and other crops were neglected.
3. Rich farmers gained more, increasing income inequality.
4. Overuse of chemicals and water caused soil and environmental damage.
5. Farm machinery reduced employment opportunities for rural labourers.

### **2.2.3 White Revolution**

The White Revolution in India was a significant agricultural movement aimed at rapidly increasing milk production, which eventually made India one of the world's leading milk producers. Commonly referred to as Operation Flood, it was officially launched in 1970 with the primary goal of transforming India from a country that suffered from milk shortages into one that was self-sufficient and capable of producing a surplus of milk. This revolution not only focused on increasing the quantity of milk but also on improving its quality and ensuring a consistent supply to consumers across the country.

The initiative was spearheaded by Dr. Verghese Kurien, who is widely recognised as the father of the White Revolution in India. Under his leadership, the Gujarat-based AMUL cooperative model played a pivotal role in organising milk producers, empowering rural farmers, and eliminating intermediaries, which allowed farmers to receive fair prices for their milk. Through this combination of scientific innovation, cooperative management, and strong leadership, the White Revolution laid the foundation for India's growth into a global leader in dairy production.

## **Achievements of White Revolution**

The White Revolution, also known as Operation Flood, was a landmark initiative that transformed India's dairy sector and made the country one of the largest milk producers in the world. It aimed to increase milk production, ensure fair prices for farmers, and improve nutrition for the population. The major achievements of White Revolution were:

- ◆ India became the largest producer of milk in the world due to the White Revolution
- ◆ The revolution made India self-sufficient in milk, reducing the need for imports
- ◆ Rural farmers, especially small and marginal ones, earned higher incomes
- ◆ Many women were empowered by participating in dairy cooperatives
- ◆ The revolution created jobs in milk production, processing, and related sectors
- ◆ It promoted the growth of allied industries like veterinary services, cattle feed, and milk processing units
- ◆ Nutrition improved as milk and dairy products became more widely available
- ◆ The cooperative movement strengthened, with the AMUL model becoming an example for rural development

## **Challenges of White Revolution**

Although the White Revolution achieved significant successes, it encountered several challenges that restricted its benefits in certain regions. Major issues included were as follows;

1. Benefits were unevenly distributed, with states like Gujarat and Maharashtra gaining more than others
2. Native cattle breeds were often neglected due to extensive cross-breeding
3. The cost of milk production increased because of expenses on feed, veterinary care, and infrastructure
4. Environmental issues arose from cattle waste and the high demand for feed
5. Areas without strong cooperative systems could not fully benefit from the revolution

## 2.2.4 The Second Green Revolution

The current status of agriculture in India is the result of the Green Revolution of the late 1960s. The first green revolution has made India self-sufficient in food grain production and therefore ensured food security. It helped India to attain its targeted food grain production and changed Indian agriculture within a decade. It was a very important movement during the difficult times. This progress and security had its own costs in terms of environment and economic viability as it rampantly used fertilisers and other chemicals. Since the current state of agriculture is not sustainable, the new agriculture policy of India aims at sustainable agriculture, which is popularly called ‘Second Green Revolution’ or ‘Evergreen Revolution’.

The first Green Revolution was confined to Punjab and parts of North India and focused on wheat and rice production. The Second Green Revolution spread throughout the country (in the 1980s) and played a major role in alleviating rural poverty as it helped in diversification in the cropping pattern. This helped to improve rural markets and ushered in economic growth in the 1990s. As an important component under the National Action Plan on Climate Change, the National Mission for Sustainable Agriculture aims to address issues regarding agriculture in the context of risks associated with climate change. The mission includes strategies for food security, equitable access to food resources, enhancement of livelihood opportunities and contribution to economic stability at the national level.

Dr. M. S. Swaminathan called for an Evergreen Revolution and also set four broad preconditions for making it a success. These included promoting soil health, promoting lab to land experiments, making rainwater harvesting compulsory and providing easier credit to farmers. His vision included adapting scientific techniques and promoting organic farming for attaining proper and sustainable growth in agriculture. This mission seeks to transform Indian agriculture into a climate-resilient production system in the domain of crops and animal husbandry. The mission tries to absorb improved technology, best practices, creation of physical and financial infrastructure, access to information and promotion of capacity building towards sustainable agriculture. It was debated that in order to make rural livelihoods more sustainable, initiatives like organic farming would improve productivity by preserving ecological balance.

Beyond the Second Green Revolution of the 1980s, Indian agriculture underwent major changes, especially after the New Economic Policy (NEP) of 1991, which reduced state control, opened markets, encouraged private investment, and promoted efficiency, leading to reforms such as the electronic National Agriculture Market (e-NAM), the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), the Pradhan Mantri Fasal Bima Yojana (PMFBY), and stronger agricultural research and rural infrastructure support. At the same time, global trade agreements like those under the World Trade Organisation (WTO) and the ASEAN-India Free Trade Agreement (AIFTA) created both opportunities and risks-boosting exports but also increasing import competition, lowering prices for crops like tea, pepper, rubber, and edible oils, and hurting small farmers. India has therefore remained cautious in international dairy and trade negotiations, even

withdrawing from the Regional Comprehensive Economic Partnership (RCEP), to protect its farmers from heavily subsidised imports from developed countries.

## Recap

- ◆ Agriculture is crucial for India, supporting the livelihood of most rural populations
- ◆ Pre-independence agriculture was weak due to neglect, exploitative landlords, and a lack of infrastructure
- ◆ Five-Year Plans aimed to modernise agriculture with irrigation, technology, fertilisers, credit, and institutional reforms
- ◆ Agricultural growth was low from 1950-51 to 1967-68; the Green Revolution began in 1966 to boost food grain production
- ◆ The Intensive Agricultural District Programme (IADP) targeted high-potential regions to maximise yields
- ◆ High-Yielding Variety (HYV) seeds, chemical fertilisers, pesticides, and improved irrigation transformed Indian agriculture
- ◆ The Green Revolution increased foodgrain and commercial crop production, but created regional inequality and environmental issues
- ◆ The White Revolution (Operation Flood) in 1970 increased milk production, empowered rural farmers, and strengthened cooperatives like AMUL
- ◆ Challenges of the White Revolution included uneven benefits, neglect of native breeds, rising costs, and environmental concerns
- ◆ The Second Green Revolution, or Evergreen Revolution, aims at sustainable, climate-resilient, and diversified agriculture
- ◆ Dr. M. S. Swaminathan emphasised soil health, lab-to-land experiments, rainwater harvesting, and easier credit for farmers
- ◆ Sustainable agriculture initiatives include organic farming, improved technology, infrastructure development, and capacity building

## Objective Questions

1. What is the main source of livelihood for rural India?
2. Which program targeted high-potential agricultural districts in India?
3. Who was the scientist behind the Green Revolution in India?
4. From which country were the high-yielding wheat varieties introduced?
5. What was the name of the milk production initiative launched in 1970?
6. Who is known as the father of the White Revolution?
7. Which cooperative model played a major role in India's dairy development?
8. What is the modern sustainable agriculture strategy called?
9. What is the key goal of the Evergreen Revolution

## Answers

1. Agriculture
2. IADP
3. M. S. Swaminathan
4. Mexico
5. Operation Flood
6. Verghese Kurien
7. AMUL
8. Evergreen
9. Sustainability

## Assignments

1. Explain the agricultural strategy adopted in India after Independence.
2. What is the Green Revolution? Discuss its main features.
3. Describe the achievements of the Green Revolution in India.
4. What is the White Revolution? Explain its impact on milk production and rural economy.
5. What is meant by the Second Green Revolution? Why is it necessary for India today?

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**BLOCK**

# Major Economic Policies



# UNIT

## IPR 1956 and the MRTP Act

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ know categorisations under the Industrial Policy Resolution (IPR) of 1956
- ◆ comprehend the policy and development issues that led to the introduction of the MRTP Act
- ◆ get an idea about the significance of the MRTP Act

### Prerequisites

After Independence, India aimed for rapid industrial growth along with social justice. The economy was closely regulated, and the government played a major role in planning and controlling industries. However, as industries expanded, a serious concern emerged: economic power was becoming concentrated in the hands of a few large business houses. Small firms struggled to compete, and consumers had limited choices.

This situation raised an important question: Can development be meaningful if it benefits only a few? To prevent monopolies and unfair trade practices, policymakers felt the need for strong industrial and competition laws. This led to the Industrial Policy Resolution (IPR) of 1956 and later the Monopolies and Restrictive Trade Practices (MRTP) Act, which aimed to promote balanced industrial growth, fair competition, and consumer protection.

In this unit, learners will come across these policy measures and examine the development issues that shaped India's approach to industrial regulation and competition.



## Keywords

Industrial Policy Resolution (IPR) 1956, Monopolies and Restrictive Trade Practices (MRTP) Act, Mixed Economy, Monopoly, Economic Planning

## Discussion

### 3.1.1 IPR 1956

After independence, India was facing widespread poverty, illiteracy, and underdeveloped industries. The economy was primarily agrarian in nature, heavily dependent on agriculture. During this time, national leaders aimed to transform the economy through planned development. To achieve this, the Industrial Policy Resolution of 1948 was introduced, laying the foundation for a mixed economy, where both the public and private sectors would have specific roles. The government also implemented the First Five-Year Plan, which led to progress in the agriculture sector. However, industrial growth remained slow, and economic disparities continued to grow. This situation called for a stronger and more focused industrial policy that would promote long-term industrialisation.

Prime Minister Jawaharlal Nehru and Indian planners, influenced by the Soviet model of state-led industrialisation. The Mahalanobis Model of economic planning, proposed by economist P.C. Mahalanobis, supported this vision. It emphasised the importance of heavy industries, the development of the capital goods sector, and long-term investment for achieving self-sufficiency. To implement these goals, the government introduced several policies, one of the most significant being the Industrial Policy Resolution of 1956, which played a major role in shaping India's industrial and economic development.

#### 3.1.1.1 Objectives of the 1956 Industrial Policy

1. The Industrial Policy of 1956 aimed to accelerate the pace of industrialisation in India by expanding the industrial base of the economy.
2. 1956 Industrial Policy intended to establish a socialist pattern of society by ensuring that the major sectors of the economy remained under public ownership and control.
3. The policy aimed to strengthen and expand the public sector so that it could play a dominant role in key and strategic industries.
4. 1956 Industrial Policy sought to reduce regional imbalances by promoting industrial development in backward and underdeveloped areas through government support and incentives.

5. The policy aimed to create a balanced industrial structure by promoting both heavy industries and consumer goods industries in a coordinated manner.
6. 1956 Industrial Policy intended to promote small-scale and cottage industries by providing protection, financial assistance, and support to generate employment and encourage decentralised production.
7. The policy aimed to regulate the private sector through an industrial licensing system so that private investment aligned with national development priorities.
8. 1956 Industrial Policy sought to ensure efficient and optimal utilisation of national resources by preventing the concentration of economic power in a few hands.
9. The policy aimed to promote import substitution by encouraging domestic production of essential and capital goods, thereby reducing dependence on foreign imports.
10. 1956 Industrial Policy intended to generate large-scale employment opportunities through the expansion of industries, particularly labour-intensive sectors, to improve the living standards of the population.

### 3.1.1.2 Categorisation of Industries

The Industrial Policy Resolution (IPR) Act of 1956 included a threefold classification of industries. The three categories were:

#### 1. Category A: Exclusive Responsibility of the State

Category A industries were placed entirely under the control of the State, with no scope for private sector participation. This complete government ownership was intended to ensure strategic control over sectors critical to national interest. The objectives included enabling high capital investment, safeguarding national security, achieving self-reliance, and minimising dependence on foreign technology and imports. A total of 17 industries were classified under this category. Key industries included:

- ◆ Atomic energy
- ◆ Arms and ammunition
- ◆ Iron and steel
- ◆ Heavy castings and forgings
- ◆ Heavy machinery
- ◆ Coal and lignite
- ◆ Mineral oils

- ◆ Railway transport
- ◆ Air transport
- ◆ Telecommunication and wireless equipment
- ◆ Shipbuilding
- ◆ Power generation and distribution

These sectors were seen as vital for the country's long-term economic development and sovereignty.

### **Category B: Mixed Sector (State-Private Collaboration)**

Category B included industries under the Mixed Sector, where both the State and private sector collaborated. In this model, the State played a leading role, with the authority to step in and establish public enterprises if private investment was found to be insufficient. The goal was to supplement public investment with private enterprise, thereby ensuring balanced industrial growth. Around 12 industries were included in this category, such as:

- ◆ Chemicals, fertilisers, and pharmaceuticals
- ◆ Machine tools
- ◆ Aluminium and other non-ferrous metals
- ◆ Industrial machinery
- ◆ Electrical equipment
- ◆ Boilers
- ◆ Diesel engines
- ◆ Fertilisers manufacturing
- ◆ Synthetic rubber
- ◆ Medium-sized industries with large capital investment

These industries were considered important for industrial progress, but did not require exclusive state control.

### **Category C: Private Sector (With State Regulation)**

Category C encompassed industries where private initiative was encouraged, but state regulation remained. While the government did not directly involve itself in these industries unless necessary, it maintained regulatory control to ensure alignment with national objectives. The primary goals were to promote entrepreneurship, meet

domestic demand, and ensure orderly growth through policy control. Major industries under this category include:

- ◆ Consumer goods industries (textiles, sugar, paper, soap)
- ◆ Food processing industries
- ◆ Light engineering goods
- ◆ Small-scale and cottage industries
- ◆ General manufacturing industries

These sectors were open to private enterprise but operated within a framework of government oversight to balance growth and regulation.

### 3.1.2 Policy and Development Issues

Before the introduction of the MRTP Act in 1969, the Indian economy faced several structural and policy-related challenges that hindered equitable and competitive growth. The major problems faced by India during this time are discussed below.

**1. Concentration of Economic Power:** Before the enactment of the MRTP Act, one of the major policy concerns in India was the growing concentration of economic power in the hands of a few large industrial houses such as the Birlas and Tatas. These business groups had significant control over multiple sectors of the economy, leading to an unequal distribution of wealth and resources. This trend posed a serious threat to the goal of achieving equitable economic development. It was also viewed as being inconsistent with the vision of a socialist pattern of society, which was a guiding principle in India's planning framework. The unchecked dominance of a few corporate entities risks undermining fair competition, limiting opportunities for smaller firms, and weakening the state's efforts to ensure inclusive growth.

**2. Lack of Regulation on Monopolies:** In the period before the MRTP Act, India lacked a legal framework to regulate monopolistic and oligopolistic practices. As a result, companies were free to engage in restrictive trade practices such as price fixing, market sharing, and deliberately limiting the supply of goods. These activities created barriers to fair competition and gave undue advantage to dominant firms. The absence of regulatory oversight allowed powerful business entities to manipulate market conditions, leading to higher prices, reduced choices, and lower quality of goods and services for consumers. This unregulated environment ultimately undermined consumer welfare and economic efficiency.

**3. Import Substitution and Industrial Licensing :** India adopted a strategy of import substitution industrialisation in the post-independence period, aiming to reduce dependence on foreign goods and build a self-reliant economy. To implement this strategy, the government introduced an extensive system of industrial licensing, often referred to as the License Raj. Under this system, businesses were required to obtain government approvals for setting up new industries, expanding production, or diversifying their operations. While intended to regulate industrial growth, the system led to widespread inefficiencies and bureaucratic delays. It also tended to favour large,



well-connected firms that could navigate the complex approval process. As a result, market competition was distorted, and monopolistic tendencies began to emerge, undermining the goals of a competitive and equitable industrial structure.

**4. Consumer Exploitation :** In the absence of strong market competition, consumers in pre-MRTP Act India often faced exploitation in various forms. The dominance of a few large firms, combined with restrictive trade practices, resulted in the availability of poor-quality goods, inflated prices, and very limited product choices. With little pressure to improve quality or reduce prices, producers prioritised profits over consumer welfare. As these issues became more widespread, public and policy-level awareness grew regarding the need to protect consumer interests. This led to increasing calls for government intervention to ensure fair trade practices, uphold consumer rights, and promote a more competitive and transparent market environment.

**5. Planning Objectives and Directive Principles:** The policy framework of post-independence India was deeply influenced by the objectives outlined in the Five-Year Plans and the Directive Principles of State Policy enshrined in the Constitution. A key goal of the Five-Year Plans was to reduce inequalities of income and wealth and promote balanced economic development. Complementing this, Article 39 (b) and (c) of the Directive Principles emphasised that the ownership and control of material resources should be distributed to serve the common good, and that the economic system should not result in the concentration of wealth and means of production. These principles provided a constitutional and moral foundation for enacting laws like the MRTP Act, which aimed to prevent monopolistic practices and ensure a more equitable distribution of economic power in society.

**6. Need for a Competitive Economy :** Economic planners and policymakers in India gradually recognised that fostering a competitive environment was essential for driving efficiency, innovation, and overall economic growth. Free and fair competition was seen as a vital mechanism to encourage businesses to improve productivity, reduce costs, and enhance the quality of goods and services. However, in the absence of legal checks, dominant firms could exploit their market position to suppress competition, creating barriers for smaller enterprises and new entrants. This not only discouraged entrepreneurial activity but also led to a decline in overall economic dynamism. Hence, there emerged a strong need for legislative measures to curb monopolistic practices and promote a healthier, more competitive economy.

Apart from the 1956 Industrial Policy Resolution and the Industrial Policy of 1991, the following were the major policy statements that shaped the public and private sector industries in India:

- ◆ The Industrial Policy Resolution of 1948 was India's first industrial policy after independence, which established a mixed economy by categorising industries and defining the roles of the public and private sectors. It classified industries into four categories: exclusive state monopoly (like arms and atomic energy), state monopolies for new units in key sectors (like coal and iron and steel), a controlled private sector for important industries, and the rest open to private enterprise.

- ◆ The 1977 industrial policy in India shifted focus from large industries to the promotion of small and rural-based industries, preventing monopolies, and encouraging self-reliance and employment. It aimed to prevent the concentration of economic power in a few large houses and increase the production of consumer goods. The 1977 industrial policy also sought to develop indigenous technology and labour-intensive sectors to boost employment.
- ◆ The 1980 Industrial Policy in India was designed to boost industrial productivity and competitiveness by promoting modernization, technology, and balanced regional development. It sought to improve the efficiency of the public sector while also encouraging export-oriented growth and the growth of small-scale industries.

### 3.1.3 MRTP ACT

The Monopolies and Restrictive Trade Practices Act (MRTP Act) was introduced in India in 1969. It came into force on June 1, 1970. The Monopolies and Restrictive Trade Practices (MRTP) Act was introduced to regulate and prevent practices that could harm fair competition in the Indian market.

#### 3.1.3.1 Purpose of the MRTP Act

- 1. Prevent Monopoly:** A monopoly is a market situation where a single company or business controls the entire supply of a product or service, and there are no close substitutes available. Because there is no competition, the company can often set high prices, limit choices, and control the quality or availability of the product. Maybe the monopolistic trade practice includes unreasonably increasing prices by limiting production or supply, reducing or preventing fair competition, restricting innovation or capital investment, or raising costs and profits unfairly through control of the market. Hence, the MRTP Act was enacted to prevent a single business or a few businesses from unfairly dominating the market and to protect the interests of consumers and smaller players.
- 2. Promote Fair Competition:** Unfair Trade Practices (UTP) exist in the markets that involve deceptive methods used to promote the sale or supply of goods and services. These include making false claims about product quality or standards, misleading advertisements, fake guarantees or warranties, advertising false bargain prices, offering deceptive free gifts or prizes, selling substandard products, and hoarding or refusing to sell goods to artificially raise prices. So, the MRTP ensures businesses compete in a healthy way without using unethical or restrictive practices.
- 3. Protect Consumers and Traders :** One of the key objectives of the MRTP Act was to safeguard the interests of consumers and small traders from unfair business practices. Restrictive Trade Practices (RTP) are actions by businesses that limit competition or manipulate the market in ways that harm others. These include forcing buyers to purchase additional products, fixing resale prices, dividing markets among competitors, preventing new businesses from entering the market, restricting the use of new technologies,

or engaging in price-fixing and bid-rigging agreements. Such practices can raise prices, reduce choices, and block innovation, ultimately harming both consumers and smaller traders. The MRTP Act was enacted to monitor and regulate these practices, helping to maintain a fair, competitive, and consumer-friendly market environment in India.

The MRTP Act was an important first step in regulating unfair trade practices, but it had some limitations, such as not effectively dealing with companies that abused their dominant position in the market. Because of these shortcomings, the MRTP Act was eventually replaced by the Competition Act, 2002, which introduced a more modern and comprehensive approach to promoting fair competition in India.

### 3.1.3.2 Competition Act, 2002

The Competition Act of 2002 was driven by economic liberalisation and globalisation. Its main reasons were to prevent anti-competitive practices like abuse of dominance, cartels, and secret agreements via collusion, promote fair and healthy competition, protect the interests of consumers, and regulate mergers and acquisitions that could harm competition. While the MRTP Act was largely amended in 1991 as part of India's structural adjustment policy, its full abolition and replacement by the new law with all its provisions came into effect on September 1, 2009.

**Table 3.2.1 MRTP Act and Competition Act**

Aspect	MRTP Act, 1969	Competition Act, 2002
<b>Objective</b>	To prevent the concentration of economic power and control of monopolies.	To promote and sustain competition in markets and protect consumer interests
<b>Focus</b>	Focused on the size of the firm, large size was often considered inherently bad.	Focuses on the behaviour of firms; dominance is not bad, but its abuse is prohibited.
<b>Nature</b>	Primarily reformatory, with limited penalties.	Punitive, with provisions for heavy penalties and fines for violations.
<b>Regulator</b>	Monopolies and Restrictive Trade Practices Commission (MRTPC).	Competition Commission of India (CCI), an autonomous body.
<b>Scope</b>	Lacked specific provisions for modern anti-competitive practices like cartels and had no extraterritorial jurisdiction.	Explicitly defines and prohibits anti-competitive agreements (e.g., cartels), abuse of dominant position, and regulates mergers/acquisitions (combinations).

## Recap

- ◆ The Industrial Policy Resolution (IPR) of 1956 laid the foundation for a mixed economy
- ◆ The IPR of 1956 divided industries into three categories: State-controlled, Mixed sector, and Private sector, with government regulation
- ◆ The MRTP Act of 1969 aimed to prevent monopolies, promote fair competition, and protect consumers by regulating restrictive trade practices
- ◆ The MRTP Act addressed market manipulation, unfair pricing, and barriers to new entrants
- ◆ The MRTP Act was later replaced by the Competition Act, 2002, which introduced a more modern approach to promoting fair competition

## Objective Questions

1. What was the primary goal of the Industrial Policy Resolution (IPR) of 1956?
2. Which model influenced India's industrialisation approach after independence?
3. In the IPR of 1956, which category of industries was placed under exclusive state control?
4. What is the full form of MRTP ?
5. Which Act replaced the MRTP Act of 1969 to promote fair competition in India?
6. Which sector was given the responsibility of industrialisation under the mixed sector in the IPR of 1956?
7. Which key industries were included in Category A of the IPR 1956?
8. What economic principle guided India's industrial planning during the early post-independence period?

9. What was one major flaw of the License Raj system in post-independence India?
10. What type of practices did the MRTP Act aim to regulate?

## Answers

1. To promote industrialisation and achieve self-reliance through a mixed economy
2. The Soviet model of state-led industrialisation
3. Category A
4. Monopolies and Restrictive Trade Practices
5. The Competition Act, 2002
6. Both the State and private sectors
7. Defence production, atomic energy, iron and steel
8. Socialist pattern of society
9. Bureaucratic delays and inefficiencies
10. Monopolistic and restrictive trade practices

## Assignments

1. Explain the key features and significance of the Industrial Policy Resolution (IPR) of 1956.
2. Examine the role of the MRTP Act in addressing monopolistic practices and its impact on consumer welfare in India.
3. Evaluate the limitations of the MRTP Act, and explain why it was eventually replaced by the Competition Act, 2002.
4. Critically assess how the absence of regulatory oversight before the MRTP Act affected market competition and consumer rights in India.

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## UNIT

# Nationalisation of Banks

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ discuss the historical background of bank nationalisation in India
- ◆ describe the objectives and significance of the 1969 and 1980 nationalisation phases
- ◆ comprehend the impact of bank nationalisation on rural credit and financial inclusion

### Prerequisites

Before India nationalised its banks, the banking system was largely in private hands and concentrated in urban areas. Most people in rural regions, small farmers, and small businesses had little or no access to formal banking services. Credit was often provided by local moneylenders at very high interest rates, which kept the poor trapped in a cycle of debt. The private banking sector mainly served wealthy individuals and large industries, leaving the majority of the population financially excluded.

To address these challenges and promote social and economic development, the Government of India decided to nationalise banks. The first major step came in 1955 when the Imperial Bank of India was nationalised. Bank nationalisation aimed to expand banking services to rural and semi-urban areas, direct credit towards agriculture, small industries, and weaker sections of society, and ensure that the financial system supported the country's broader economic goals. In this unit, we will study bank nationalisation in India in detail.

## Keywords

Nationalisation, Financial Inclusion, Priority Sector Lending, MRTP Act, Rural Banking

## Discussion

### 3.2.1 Bank Nationalisation

Bank nationalisation was one of the most significant economic reforms in India. It is a process by which the government takes ownership and control of privately owned banks. The main purpose of nationalisation is to direct credit towards agriculture, small industries, and other priority sectors, and to ensure that the financial system serves the broader economic and social interests of the country.

#### 3.2.1.1 History of Bank Nationalisation in India

Before 1955, the Indian banking sector was largely controlled by private individuals and business houses. Most banks catered to the financial needs of big industrialists and were concentrated in urban areas. As a result, rural regions, small farmers, and economically weaker sections had very limited access to formal banking services. This uneven distribution of credit created concerns about social and economic inequality. Therefore, there was a growing need for stronger government control over the banking system to ensure fair, inclusive, and balanced financial services across the country.

In 1955, the Government of India took a major step toward banking reform by nationalising the Imperial Bank of India. It was renamed the State Bank of India (SBI) with the primary aim of expanding banking services to rural and semi-urban areas, where access to financial services was extremely limited. SBI was also entrusted with the role of being the principal agent of the Reserve Bank of India (RBI) to handle banking transactions on behalf of the central and state governments across the country.

**First Phase of Bank Nationalisation - 1969** : On 19th July 1969, under the leadership of Prime Minister Indira Gandhi, the Government of India nationalised 14 major commercial banks. This move marked a turning point in India's economic history. The banks selected had deposits exceeding ₹50 crores, and the nationalisation aimed to bring banking under public control to better support nation-building and planned economic development.

**Second Phase of Bank Nationalisation - 1980** : In 1980, the Government of India carried out the second phase of bank nationalisation by bringing six more commercial banks under public ownership. The main purpose of this move was to further expand the reach of banking services, especially in rural and underserved areas, and to ensure that credit delivery remained under effective government control.



In the years following economic liberalisation in the 1990s, private and foreign banks were allowed to operate more freely in India. This marked a shift in focus from government control toward improving efficiency, profitability, and competition within the banking sector. To strengthen performance and reduce inefficiencies, the government also began merging nationalised banks, aiming to create stronger, more stable institutions capable of competing in a globalised economy and better serving the needs of a growing population.

Between 2017 and 2020, the Government of India initiated a series of public sector bank mergers as part of banking sector reforms. The main aim was to create stronger, more competitive, and financially sound banks that could better handle global challenges and improve service delivery. As part of this process, Vijaya Bank and Dena Bank were merged with Bank of Baroda, while Allahabad Bank was merged with Indian Bank. These mergers were expected to bring greater operational efficiency, better resource management, and improved customer service.

### **3.2.2 Nationalisation of Banks in 1969 and 1980**

In 1955, the Government of India nationalised the Imperial Bank of India and established the State Bank of India (SBI). The main objective was to expand banking services, especially in rural and semi-urban areas. SBI was also appointed as the principal agent of the Reserve Bank of India (RBI) to handle banking transactions for both the central and state governments across the country. After this, two major phases of bank nationalisation took place in India. Let us now discuss each phase in detail.

1. Phase one: Nationalisation of banks in 1969
2. Phase two: Nationalisation of banks in 1980

In 1980, a second phase of nationalisation took place, and six more banks were brought under government control. Together, these two phases brought about 80% of the banking sector under government ownership.

#### **3.2.2.1 Phase one: Nationalisation of Banks in 1969**

Before 1969, the Indian banking sector was largely controlled by private individuals and business houses. Banks were mainly concentrated in urban areas and primarily served the needs of large industries and wealthy individuals. The rural population, small farmers, and small businesses had limited or no access to banking services. There was a growing concern that banks were not playing an adequate role in supporting economic development and reducing poverty.

On 19<sup>th</sup> July 1969, the Government of India, under the leadership of then Prime Minister Indira Gandhi, nationalised 14 major commercial banks. This was a landmark decision in the economic history of India. It marked a major turning point in the Indian banking sector, transforming it from a privately dominated industry into an instrument of public policy aimed at achieving social and economic justice. The banks nationalised in 1969 included prominent names such as:

- |                          |                          |
|--------------------------|--------------------------|
| 1. Allahabad Bank        | 8. Punjab National Bank  |
| 2. Bank of Baroda        | 9. Syndicate Bank        |
| 3. Bank of India         | 10. Union Bank of India  |
| 4. Canara Bank           | 11. United Bank of India |
| 5. Central Bank of India | 12. UCO Bank             |
| 6. Indian Bank           | 13. Dena Bank            |
| 7. Indian Overseas Bank  | 14. Bank of Maharashtra  |

### 3.2.2.2 Phase Two: Nationalisation of Banks in 1980

In 1980, the Government of India nationalised six more commercial banks. The main aim was to give the government more control over how credit was given, especially to rural areas and sectors like agriculture and small industries. This step also helped to expand banking services across the country, making sure that credit was shared more fairly among different regions and groups. It increased the government's share in the banking sector and supported the goal of financial inclusion and balanced economic growth. In the second phase of bank nationalisation in 1980, six more commercial banks were brought under government ownership. These banks were

1. Punjab and Sind Bank
2. Vijaya Bank (now merged with Bank of Baroda)
3. Oriental Bank of Commerce (now merged with Punjab National Bank)
4. Corporation Bank and Andhra Bank (both now merged with Union Bank of India)
5. New Bank of India (which was merged with Punjab National Bank in 1993)

This phase further strengthened the public sector's presence in banking, and as a result, the Government of India came to control about 91% of the country's total banking business.

### 3.2.2.3 Post-1991 Banking Sector Reforms

The post-liberalisation period witnessed drastic changes in India's banking sector. The liberalisation policies essentially opened the door for the private sector to play a much larger, more dynamic role in India's financial system.

The period from the 2000s to the 2010s included mergers in the private sector, followed by the amalgamation of SBI with its associate banks in 2017. The proponents of consolidations aimed to create stronger, more efficient, and globally competitive banks with better risk management.



Key private bank mergers after 1991 include:

- ◆ **HDFC Bank and Times Bank (2000):** Times Bank was the first new-generation private sector bank to be merged, with HDFC Bank acquiring it in 2000.
- ◆ **ICICI Bank and Bank of Madura (2001):** Bank of Madura was acquired by ICICI Bank to increase its rural and southern India presence.
- ◆ **Centurion Bank and Bank of Punjab (2005):** These two entities merged to form Centurion Bank of Punjab, which was later acquired by HDFC Bank in 2008.
- ◆ **Kotak Mahindra Bank and ING Vysya Bank (2015):** In one of the largest private sector bank mergers, Kotak Mahindra Bank took over ING Vysya Bank to expand its footprint and customer base.
- ◆ **IDFC Bank and Capital First (2018):** IDFC Bank merged with the non-banking financial company (NBFC) Capital First to transition into a more retail-focused bank, forming IDFC First Bank.
- ◆ **DBS Bank India and Lakshmi Vilas Bank (2020):** DBS Bank India absorbed the struggling Lakshmi Vilas Bank under a scheme initiated by the Reserve Bank of India to protect the interests of depositors.
- ◆ **HDFC Ltd. and HDFC Bank (2023):** In a landmark \$40 billion deal, the Housing Development Finance Corporation (HDFC) Limited (parent company) merged with its banking subsidiary, HDFC Bank, to create a large financial conglomerate.

While most major bank amalgamations involved public sector banks (PSBs), these private sector mergers significantly shaped the modern Indian banking landscape.

The SBI group underwent a phased consolidation.

- ◆ State Bank of Saurashtra merged with SBI in 2008
- ◆ State Bank of Indore merged with SBI in 2010

In 2017, five remaining associate banks and the women-focused bank were merged into the parent entity:

- ◆ State Bank of Bikaner & Jaipur
- ◆ State Bank of Hyderabad
- ◆ State Bank of Mysore
- ◆ State Bank of Patiala
- ◆ State Bank of Travancore
- ◆ Bharatiya Mahila Bank

In a major consolidation effort, the government announced mergers in 2019 that became effective from April 1, 2020 (except for Bank of Baroda's which was effective from April 1, 2019):

- ◆ Bank of Baroda became the anchor bank for the merger with Dena Bank and Vijaya Bank.
- ◆ Punjab National Bank (PNB) became the anchor bank for the merger with Oriental Bank of Commerce and United Bank of India.
- ◆ Canara Bank merged with Syndicate Bank.
- ◆ Union Bank of India merged with Andhra Bank and Corporation Bank.
- ◆ Indian Bank merged with Allahabad Bank.

### 3.2.2.4 Key Reasons for Bank Amalgamation

**1. To create globally competitive 'next-generation' banks :** Mergers create larger entities with greater financial capacity and an expanded global presence, allowing them to compete with large domestic and international financial institutions.

**2. Strengthening balance sheets and improving financial health :** A primary driver was to address the problem of mounting Non-Performing Assets (NPAs), or 'bad loans'. Merging weaker, loss-making banks with stronger, better-capitalised anchor banks helps absorb losses, improve asset quality, and enhance the overall capital adequacy ratio to meet regulatory norms like Basel III.

**3. Achieving economies of scale and operational efficiency :** Consolidating operations reduces duplicated costs from overlapping branch networks, ATMs, and management structures. This streamlining leads to cost savings and improved profitability.

**4. Diversifying risk and expanding reach:** Mergers allow banks to diversify their loan portfolios and market risks by expanding their geographical footprint and customer base. The combined entity can offer a wider range of products and services to a larger customer pool.

**5. Technological advancement:** Amalgamation facilitates the integration of technology and digital banking capabilities, enabling the merged entities to leverage modern platforms and provide innovative customer services more efficiently.

**6. Enhanced lending capacity:** A larger capital base enables merged banks to finance bigger projects and offer larger loans ('big ticket loans'), which contributes to overall economic growth.

**7. Easier government regulation and less need for recapitalisation:** A smaller number of larger, financially robust public sector banks makes the overall banking system easier for the Reserve Bank of India (RBI) to monitor and regulate. It also reduces the need for the government to frequently inject capital (recapitalisation) into struggling smaller banks.

### 3.2.2.5 Importance of Bank Nationalisation

**1. Financial Inclusion :** Before 1969, the Indian banking sector was concentrated in big cities and urban areas, making it difficult for rural regions to access formal banking services. To promote financial inclusion and make banking accessible to those who had long been excluded from the credit system, such as farmers, labourers, and small business owners, the government took the step of nationalising banks. Following nationalisation, there was a significant expansion of bank branches across rural and remote areas, bringing financial services closer to the common people.

**2. Support for Agriculture and Small Industries :** One of the key goals of bank nationalisation was to channel credit towards priority sectors such as agriculture, small businesses, and weaker sections of society. Before nationalisation, these groups struggled to access financial resources and had to rely on local moneylenders. This made the situation worse, as loans were often given at very high interest rates, which hindered their growth and kept them in a cycle of poverty. After nationalisation, banking facilities became available in rural areas, and credit flow to these sectors increased significantly. This helped reduce rural poverty by empowering small-scale farmers and entrepreneurs with the financial support they needed, ultimately leading to rural development.

**3. Government Control over Credit :** Bank nationalisation gave the government greater control over the allocation of credit. This shift ensured that lending practices were not just driven by profit motives but were aligned with the country's broader economic planning. Credit flowed to sectors that were crucial for economic growth, helping to support balanced development and reduce regional disparities. This strategic use of credit played a vital role in shaping India's long-term economic progress.

**4. Rapid Branch Expansion :** After bank nationalisation, the public sector significantly enhanced its branch network. This expansion made banking services accessible to a larger portion of the population. Between 1969 and 1991, the number of bank branches in India increased nearly ten times. Today, India boasts a vast network of more than 150,000 bank branches across the country, with a continued focus on financial inclusion, especially in rural and semi-urban areas. The expansion of digital banking has further strengthened access, ensuring that banking services are available even in the most remote corners of the nation.

**5. Reduction in Regional Disparities :** Bank nationalisation played a crucial role in balancing economic development across different states and regions in India. Before nationalisation, banking services were primarily concentrated in urban areas. Afterwards, the expansion of banks into rural and remote areas significantly improved access to financial resources, helping to reduce the urban-rural divide. The increased availability of banking services in every corner of the nation promoted more equitable economic development and helped bridge regional disparities.

### 3.2.2.6 Criticism of Bank Nationalisation

**1. Inadequate Banking Facilities :** Despite the rapid expansion of branch networks after nationalisation, considerable areas of India remained without formal banking services. In the absence of competition, public sector banks often operated with low

efficiency, which prevented them from extending services into remote rural regions. Consequently, many small farmers, artisans, and low-income households continued to rely on informal credit sources or remained completely unbanked.

**2. Reduced Efficiency and Profitability :** When banks were brought under government ownership, professional management was frequently subordinated to political objectives. Lending decisions and administrative directives were sometimes influenced by short-term populist goals, rather than sound commercial considerations. This politicisation led to reduced productivity, higher operating costs, and diminished profitability across many nationalised banks.

**3. Political and Administrative Interference :** Sustained political involvement in bank operations manifested in schemes such as large-scale “loan melas,” which encouraged indiscriminate lending. Such initiatives often lacked rigorous credit appraisal and recovery mechanisms, resulting in a sharp rise in non-performing assets (NPAs). To this day, public sector banks hold a disproportionately high share of India’s total NPAs, reflecting the long-term impact of policy-driven credit allocation.

**4. Increased Expenditure :** The nationwide rollout of new branches and the recruitment of large staff cadres significantly increased administrative expenses. Frequent disputes with trade unions over salaries, benefits, and working conditions further added to overheads. As a result, cost-to-income ratios in many public sector banks remained elevated, placing pressure on their financial sustainability.

**5. Complex Interest Rate Structure:** To cater to diverse borrower segments and loan tenures, public sector banks often employed multiple interest-rate slabs and linked rates to various policy mandates. This complexity not only confused customers but also complicated the banks’ own risk-management and pricing strategies. In practice, the intricate rate structures contributed to uneven loan servicing and, indirectly, to a higher incidence of defaults.

## Recap

- ◆ The Imperial Bank of India was nationalised and renamed the State Bank of India (SBI) in 1955
- ◆ On 19 July 1969, under Prime Minister Indira Gandhi, 14 major commercial banks (each with deposits over ₹50 crore) were nationalised
- ◆ In 1980, six additional commercial banks were nationalised to deepen rural outreach and priority-sector credit
- ◆ After the 1980 phase, public sector banks controlled approximately 91% of India’s banking business
- ◆ The primary objectives of Bank Nationalisation are to expand banking services to rural and semi-urban areas



## Objective Questions

1. In which year were 14 major commercial banks nationalised in India?
2. Name the bank formed by the nationalisation of the Imperial Bank of India in 1955.
3. What was the main objective of bank nationalisation in 1969?
4. Which Prime Minister led the first phase of bank nationalisation?
5. Name any two banks that were nationalised in 1980.
6. What was one major criticism of public sector banks after nationalisation?

## Answers

1. 1969
2. State Bank of India (SBI)
3. To expand banking services to rural areas and priority sectors
4. Indira Gandhi
5. Punjab and Sind Bank, Vijaya Bank
6. Low efficiency due to political interference

## Assignments

1. Evaluate the objectives and achievements of the first phase of bank nationalisation in 1969.
2. Analyse how the second phase of bank nationalisation in 1980 furthered financial inclusion in rural and semi-urban India.

3. Discuss the major criticisms of bank nationalisation and recommend reforms to enhance public sector bank performance.
4. Trace the evolution of India's public sector banking from the SBI's creation in 1955 through the 2017–20 mergers, highlighting key policy shifts.

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**BLOCK**

# Development Strategy of India Since 1990



# UNIT

## The New Economic Policy 1991

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ identify the major components of the New Economic Policy of 1991
- ◆ comprehend the shift in development strategy since the 1990s
- ◆ explain globalisation, liberalisation and privatisation
- ◆ describe the issues related to these policies

### Prerequisites

Consider, you are stepping out of your home to buy apples. In the fruit and vegetable section of your supermarket, you find apples of different varieties, viz, Fuji Apples from Japan, Red Delicious apples from the USA, Gala apples from Poland. How do you think these varieties became readily available in your neighbourhood? This is where we understand the concept of globalisation, where the goods and services of the global market are integrated.

Now that you have bought the apples, you come out of the supermarket and see the name board as Reliance Hypermarket. Have you ever imagined how these private industries entered into business, or what policy changes led to the emergence of the private sector? These questions will be answered if we understand the concepts of liberalisation and privatisation.

### Keywords

New Economic Reforms, BOP crisis, Globalisation, Liberalisation, Privatisation, Disinvestment, FDI, WTO, MRTP Act, Multi-National Corporations



## Discussion

### 4.1.1 Shift in Development Strategy Since 1990s

When India became independent in 1947, Tharoor, 2016 highlighted that the country had to manage several challenges associated with the partition, such as rehabilitation of refugees, political instability, poverty and other problems like underdevelopment and a state of stagnation. It is observed that India was denuded of its resources as a result of the exploitative economic policies implemented by the Colonial powers and the drain of wealth practised by the Britishers. By 1952, the share of India in the World economy had become significantly lower at 3.8 percentage in 1952 from 22.6 per cent in 1700. The Government of India, during this period undertook several initiatives to improve the state of economy and achieving self sufficiency through the rapid industrialisation and creation of state owned enterprises.

India's post-independence development paradigm was initially characterised by a state-led, mixed economic approach focused on self-reliance through planned development, prioritising heavy industries and agriculture via Five-Year Plans through the Planning Commission. The Industrial Policy Resolution of 1956 and other economic policies made the public sector relatively more dominant, while the private sector was highly regulated by licensing system and confined to the production of a few goods. According to Misra & Puri, 2013, the import substitution was adopted in order to protect the domestic industries and reduce the dependence on imported commodities. As per the Economic Survey, India showed slight improvements in its decadal growth rate from 3.9 per cent in 1952-1960 to 4.1 in 1960s. India's slow economic growth of around 3.5% from the 1950s to the 1980s was called by pundits as 'Hindu Rate of Growth' as a belittling label. As per the critics, the term 'Hindu Rate of Growth' falsely implies that Indian culture or Hindu values are inherently linked to poor economic performance, which is misleading. The main reason behind this slow pace of growth was the complex economic, political, and social factors that existed during that era, such as socialist policies, economic mismanagement, and state-led controls that acted as a bottleneck for growth around four decades after independence.

However, the internal political instability caused due to the imposition of an emergency in 1975 led to a fall in India's growth rate to 2.9 per cent. This has induced the government to initiate fiscal reforms, such as a small reduction in import duties, economic reforms such as the removal of price controls and the revamping of the public sector.

Although these efforts led to an improvement in growth to 5.7 per cent in the 1980s, the external shock caused due to the disintegration of the Soviet Union and - Iraq-Kuwait war led to a fall in growth rate. According to Misra and Puri, these global events disrupted India's trade balances on one hand, and the shortage of oil supply led to the rise of oil prices on the other hand. The lowering of remittances from the Indian migrants added to the problem. By the end of the 1980s, this crisis was further deepened with rising fiscal deficits, weakening public sector, mounting external debt and a vulnerable economic system. As per the Economic Survey 1991-1992, India

faced a severe Balance of Payment (BOP) crisis and had less than \$1.2 billion reserves, which was just enough to cover three weeks of import bills.

As per Uma Kapila, the Government of India approached the International Monetary Fund (IMF) for financial assistance. The IMF, in return for the structural adjustment loan, required the Indian government to implement a broad set of economic reforms to which India agreed. These reforms resulted in a major development shift in the Indian economy during the 1990s. This shift facilitated a comprehensive set of structural transformations from a regulated and controlled state-led economy to a market economy. The shift brought major changes not only in the economic policies, but also in redefining the roles of institutions and development strategy. The present section discusses the major structural changes since 1990.

The first major structural transformation that happened after 1990 was the change in the role of the state. It is observed that the state had a significant role in India before the 1990s and was a state-led economy where the public sector played a dominant role. The production of goods and services, infrastructure and other major industries was carried out by the public sector. The role of the private sector was limited to certain consumer goods only. However, in the post-reform period, the state withdrew from the production of several goods and services, and produced only certain goods such as infrastructure, defence, etc. According to Uma Kapila, the state in the post-reform period focused more on the regulation and formulation of policies, thereby shifting from the role of a 'provider' to a 'facilitator'.

The private sector thus became more dominant in the post-reform period as the licensing system was dismantled and the procedures for the private entry into the market became more liberal. The departments such as aviation, power, insurance, telecom, infrastructure, etc, in which the public sector had a monopoly were gradually opened to the private sector. Besides this, the control of the state over the market was reduced. The state-led pricing mechanism, regulation of interest rates and other restrictions were replaced by market mechanisms. This resulted in the expansion of the role of market in determining market prices and increasing capital formation.

Another major change that took place was in the export sector. As per the Economic Survey 1994 -1995, before the reform, India followed an Import Substitution Strategy that emphasised achieving self-reliance. But in the post-reform period, this was replaced by an Export-led Strategy by integrating with global trading networks. The Special Economic Zones were established for facilitating export goods, reforms were made in Foreign Direct Investment (FDI) norms, and foreign trade was given relatively higher priority during the policy-making process. In addition to this, India also joined the World Trade Organisation (WTO) and became an active member in international trade since then.

These shifts in the development strategy of India during the 1990s were the result of the structural reforms prescribed by the IMF. These reforms, which were aimed at stabilising the macroeconomic situation and handling the Balance of Payment (BOP) crisis, were popularly known as the New Economic Policy of 1991.



## 4.1.2 New Economic Policy of 1991

The year 1991 marked an important turning point in the history of the Indian economy. After following an inward-looking, state-led and import substitution policies, the foreign exchange reserves had fallen to considerably lower levels, and stagnant industrial growth. When the Indian government approached the International Monetary Fund for financial assistance, the Government of India had to introduce a comprehensive set of economic reforms collectively known as the New Economic Policy (NEP) as stipulated by the IMF.

The New Economic Policy of 1991 describes the major economic reforms in India aimed at shifting the country from a closed, state-controlled economy to a more open, market-driven economy.

The New Economic Policy 1991 or the Structural Adjustment Programmes (SAP) brought several structural changes in the economy, which had long-term impact and stabilisation mechanisms which aimed at fulfilling the short-term objectives.

The structural changes introduced by the New Economic Policy, implemented revolutionary changes in the industrial sector by abolishing industrial licensing and encouraging private participation. According to Uma Kapila, the dilution of the MRTP Act and the removal of other regulations enabled private participation. Likewise, the liberalisation of trade in the form of removal of trade restrictions and reduction of import tariffs enabled the free flow of goods and services in and out of the country.

The New Economic Policy of 1991 also intended to improve the conditions of Public Sector Undertakings (PSUs). The Indian industrial sector was predominantly state-owned which created tremendous pressure on the expenditure of the government. It is observed that the Indian government had to spend its major share of its revenue to manage the sick PSUs. The result was the mounting fiscal and revenue deficits of the government. The structural adjustment programmes prescribed by the New Economic Reforms included the participation of the private sector in the economic activity and removing the barriers that restricted the entry of the private sector. The government thus adopted a policy of transferring ownership of certain industries partially or fully to the private sector. In addition to this, the government also adopted stabilisation measures such as managing the fiscal deficits, and measures to improve the public revenue through tax reforms were undertaken during this period.

The New Economic reforms of 1991 thus earmarked a major shift from the state-led planning to a market-oriented planning along with major structural transformation. These reforms can be broadly classified under three heads, viz, liberalisation, privatisation and globalisation. These policies are described in detail in the following section.

## 4.1.3 Globalisation

Globalisation is a process of integration of the domestic economy with the foreign economy through foreign trade, investment, free flow of technology and information. In India, Globalisation was practised after the Balance of Payment crisis of 1991 and the implementation of the Structural Adjustment Programme, which included liberalisation, privatisation and globalisation. According to Misra and Puri, and Uma

Kapila, globalisation is not limited to economic exchange but an integration of cultural, social and political systems.

#### 4.1.3.1 Features of Globalisation

- i. **Expansion of International Trade through Trade Sector Reforms :** Trade is the general act of exchanging goods and services, while trading is the more specific act of buying and selling financial instruments to profit from price changes. According to Misra and Puri, globalisation was adopted to integrate the domestic economy with the foreign economy through international trade. As a part of the New Economic Policy, there were several reforms undertaken in the trading sector. This included the removal of quantitative restrictions such as import tariffs. Earlier, India followed a protectionist trade policy where the domestic industries were protected from foreign competition through the imposition of import tariffs. Although this was followed to protect domestic industries, this created difficulties for other industries which required importing raw materials and capital from other countries. However, the policy of Globalisation adopted as a part of the structural adjustment programme of New Economic Policy, removed these quantitative restrictions which ensured free flow of goods and services. This not only led to the expansion of international trade but also ensured the availability of raw materials that improved the business.
- ii. **Increase in Capital Flow :** According to Uma Kapila (2020), globalisation led to the removal of restrictions on investment and ensured free flow of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FIIs) into the country. FDI includes investment made by a foreign entity in the Physical assets or ownership in a business of another country. It can take the form of building a factory, acquiring or taking over a company, or starting a subsidiary, which is a long-term investment. While FII, according to Misra and Puri (2021), is the investment made by foreign institutions such as Banks, Insurance Companies, mutual funds, etc, in another country's financial market. It is a short-term investment in the debt and equity market of short-term duration, which does not involve direct ownership. The reforms initiated by the financial sector made the registration of foreign investors easier, which facilitated the movement of Capital flow in and out of the country.
- iii. **Diffusion of Technology :** According to Misra and Puri (2021), globalisation led to the growth of Multi-National Corporations (MNCs) in India. MNCs, as defined by Dutt and Sundaram (2021), are business organisations that own and produce and distribute commodities in more than one country. It consists of a home country where they set up their parent company and open subsidiaries in other countries. For example, Hyundai is a Korean Company which set manufacturing plant in Chennai. Likewise, Nestle, which is a company based in Switzerland which produces Maggi, Nescafé, etc, in India. These MNCs in India, through joint ventures and other forms of collaborations, provided access to advanced technology.

- iv. **Cultural Political and Social Exchange** : According to Indian economic authors such as Uma Kapila and Misra, and Puri, globalisation not only includes the flow of goods and services and diffusion of technologies but also involves the exchange of culture, politics, and social norms. The exchange of cultural views, practices and lifestyles across countries is widely practised. In India, for instance, the western food items such as pizzas, burgers, south asian food items like sushi, ramen, etc are popular. Likewise, the globalisation and the participation in world organisations such as the IMF, WTO, etc, have led to the internationalisation of policies in India in tandem with the global policy norms. Besides this, globalisation has also increased global connectivity and influenced the social outlook in India. The migration in and out of the country is a result of globalisation. Similarly, the changing view towards gender equality and social freedom is also the result of exposure to global ideas.
- v. **Integration of Economies**: Economic integration is the process by which multiple countries reduce or eliminate trade barriers to foster economic cooperation and create a larger, more efficient market. Outsourcing, offshoring and fragmentation are interconnected economic phenomena that describe the increasing integration and interdependence of the world's economies. They enable businesses to optimise production processes globally, leading to greater efficiency and productivity, but also cause significant labour market shifts.
- vi. **Increased Movement of People for Employment, Migration and Tourism**: The emergence of a global economy has led to a demand for both highly skilled and low-skilled workers in developed countries with ageing populations. Innovations like affordable air travel and instant global communication have drastically reduced the cost and difficulty of moving across borders, both physically and virtually. Growing income gaps between developed and developing nations serve as major push and pull factors for migration.

#### 4.1.3.2 Stiglitz's Perspective on Globalisation

According to Joseph Stiglitz, globalisation has deepened the disparities between the rural and urban populations and widened the income inequalities. The urban labour force who had relatively higher education and skills were preferred to rural labourers. The agricultural sector in the rural areas underwent a crisis, as Misra and Puri rightly point out that the exposure to global competition has led to the distress of farmers. Inexpensive agricultural imports from foreign countries resulted in reduced demand for agricultural products in India. Alongside this, certain Micro, Small, and Medium Enterprises (MSMEs) could not cope with the inflow of imports. Stiglitz proposes that globalisation should be inclusive, where the policy must be made for the people rather than for the market alone.

Another problem was the import of capital-intensive goods, which used capital intensively for production. This has led to the replacement of labour, resulting in limited employment opportunities in the manufacturing sector. As per Uma Kapila, the labour-intensive industries failed to absorb these labourers, and this resulted in unemployment. Although GDP increased from 3.5 % in the pre-reform period to 6% in the post-reform

period, the employment opportunities did not keep up with the GDP growth. This period was characterised as a period of jobless growth.

Globalisation has enabled the flow of capital in and out of the country. This unregulated capital increases the vulnerability of the economy and exposure to the problems in foreign countries. Joseph Stiglitz warns about the problem of unregulated capital by citing the example of the East Asian crisis, which led to massive withdrawal of capital by foreign countries, leading to the crisis. While RBI reports highlight the global financial crisis of 2008 in explaining the exposure to global shocks.

Another problem of globalisation is the cultural homogenisation, whereby people prefer Western products and reduce the consumption of their indigenous and traditional products. This has resulted in the loss of diversity, uniqueness and cultural identity.

Stiglitz argues that the Indian economic policies are influenced by the policies formulated by institutions like the WTO, IMF, World Bank, etc, which have resulted in the loss of autonomy in policy making.

#### 4.1.4 Liberalisation

The Indian economy in the pre-reform period was characterised by excessive government control with a dominant public sector. The private enterprises during this period were subjected to strict licensing. Besides, the expansion of private companies was also restricted and involved a lot of procedures that created delays and inefficiencies in the economy. The BOP crisis and the resultant conditions laid by the IMF in return for the monetary aid included economic reforms such as liberalisation, privatisation, and globalisation. The concept of globalisation is discussed in the previous section; the current section discusses liberalisation.

According to Misra and Puri, liberalisation is the process of economic reforms undertaken to remove government-imposed restrictions on industrial, trade, and financial sectors and to allow greater participation of the private sector and market forces. This process dismantled the rigid regulatory framework of License Raj, which required the licensing of industries. The Industrial Policy Resolution 1991 (IPR, 1991), announced on 24<sup>th</sup> July 1991, laid the foundations for full-fledged liberalisation. As per the IPR, India had to move away from a command and control regime to an economy which responded to market signals.

##### 4.1.4.1 Features of Liberalisation

- i. **Abolition of Industry Licensing :** Before 1991, the industrial sector in India was governed by a system called 'License Raj' designed by the Industrial Development and Regulation Act (IDRA) 1951. According to the License Raj system, the industries were required to obtain a license and permission from the government before starting a business, expanding and diversifying it. According to Misra and Puri, this system of seeking approval from multiple government departments was time-consuming and inefficient. This created a lack of motivation among the entrepreneurs and restricted the optimum allocation of resources. Besides this, the import of raw material from foreign countries was

also regulated by this system and had to undergo several procedures to obtain permission to import. The policy of liberalisation, which was implemented as a part of the New Economic Policy, intended to eliminate this control over industries, encourage private participation and enable the smooth functioning of the industrial sector. The first step taken in liberalisation was the abolition of the licensing mechanism, enabling free entry of business firms and guaranteeing operational freedom.

- ii. Amendment of Monopoly Restricted Trade Practice Act (MRTP) :** The Monopoly Restricted Trade Practices Act 1969 was enacted to control monopoly power in a few hands, restrict trade practices and regulate imports. This also prevented the expansion of industries and exerted control over price and trade. As per Dutt and Sundaram, this Act aimed at controlling monopoly power among a few firms and restricting imported goods. The MRTP Act has required the firms to seek prior permission from the authority before initiating expansion or mergers. This combination of License Raj and the MRTP Act made the Indian economy less conducive for business. However, when liberalisation was introduced, the MRTP Act was amended and relaxed to enable the private sector participation and practice liberal trade. The private partnership was encouraged by abolishing licenses. The MRTP Act, which restricted the expansion, mergers, and takeovers of firms, was relaxed, which facilitated the expansion of the private sector. Likewise, import tariffs were reduced, leading to the free flow of imports of raw materials and other goods.
- iii. Trade Liberalisation :** According to the Economic Survey 1991, the New Economic Policy of 1991 incorporated globalisation, which integrated the domestic economy with the world economy. As a part of this, trade restrictions were relaxed and liberalised. The quantitative trade restrictions in the form of import tariffs were considerably reduced to facilitate the free flow of goods and services. The combined effect of globalisation and amendments made in the MRTP Act ensured the accessibility of raw materials for the business firms.
- iv. Liberalisation in the Financial Sector :** According to Uma Kapila, the Narasimham Committee was constituted under the chairmanship of M. Narasimham to recommend reforms in the banking sector. Narasimham Committee recommendations led to the banking sector reforms, which included lowering of Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), etc, that ensured flow of money into the economy. Besides this, the deregulation of interest rates from administered interest to market-oriented interest rates allowed banks to fix their own interest rates, which encouraged private sector investment.
- v. Deregulation of Industries and Privatisation :** Deregulation involves removing or relaxing government rules and restrictions on industries, while privatisation transfers ownership of state-owned companies to the private sector to increase efficiency and allow market forces to drive growth.

#### 4.1.4.2 Issues of Liberalisation Policy

Liberalisation policy has led to the rising inequalities in India, especially among the urban and rural centres and regional imbalances among advanced and backward states. The industrial growth experienced during the liberalisation period was a capital-intensive growth where capital was intensively used. Joseph Stiglitz criticises this growth as jobless growth, as it did not provide ample labour and social protections. According to B.A. Prakash, a noted Indian economist from Kerala, the gains from liberalisation were limited to higher income groups. The concentration of power and resources in a few private players may lead to extending their influence on policy-making in favour of them.

Liberalisation also led to sectoral imbalances. It is observed that the sectors like telecom, aviation, etc reaped benefits from liberalisation, while other sectors such as agriculture, MSMEs and the manufacturing sector remained stagnated. Trade liberalisation also had a significant effect on India's agricultural sector and small industries. These sectors were exposed to competition from cheap imports that limited their growth rate.

Liberalisation in the financial sector increased the volatility and risk of investment. Stiglitz rightly points out that such liberalising mechanisms in the financial sector must be backed with strong regulatory mechanisms.

#### 4.1.5 Privatisation

The New Economic Policy 1991 implemented privatisation, which is the transfer of ownership, management and control of the public sector to the private sector. Prior to 1991, the public sector played a dominant role in the Indian economy and the private sector was subjected to various restrictions. The existence of measures like License Raj and the MRTP Act was the major bottleneck that prevented the growth and expansion of the private sector in the economy. The New Economic Policy of 1991 introduced the policy of Liberalisation that led to the abolition of 'License Raj' and the amendment of the MRTP Act that paved the way to the growth of the private sector. Globalisation of the Indian economy also favoured the growth and expansion of the private sector. Alongside liberalisation and globalisation policies, one of the major reforms undertaken is privatisation.

The main objective of privatisation was to improve the productivity and operational efficiency of Public Sector Undertakings (PSUs), which often suffered from bureaucratic delays, political intervention, managerial inefficiencies, etc. According to B.A. Prakash, privatisation was a tool to ease the financial burden of the government caused due to the poor performing PSUs, which generated poor returns. This redefined the role of the state from being a producer to a facilitator. Dutt and Sundaram considered the main objective of the private sector was to create competition for the public sector, which would motivate them to improve their performance. privatisation also aimed at opening up avenues that attract investment. In India, privatisation was undertaken through multiple forms such as disinvestment, strategic sale, public-private partnership and outright sale.



### 4.1.5.1 Disinvestment

Disinvestment is a form of privatisation by which the government sell a portion or the whole of their equity in public sector undertakings to the private sector institutions or the public. There are different types of disinvestment, such as minority disinvestment, majority disinvestment, and complete privatisation.

Minority disinvestment is a process by which, government sell less than 50 % of their equity holdings. This does not involve the transfer of management but is aimed at mobilising resources. Coal India Limited (NTPC), National Thermal Power Corporation, has sold its equity by following this method. Whereas in majority disinvestment, the government sells more than 50% of their equity holdings along with management control with a view to improve operational efficiency and reduce financial burden. Air India was sold by the government to Tata Sons in 2021. Complete privatisation is a form of disinvestment in which the government completely exits the enterprise, thereby withdrawing from management. According to B.A. Prakash, a noted economist, this is a rare form of disinvestment where the government completely withdraw from the sector. Lastly, there is disinvestment through Exchange Traded Funds (ETFs). The ETF is a basket of securities or a mutual fund listed on stock exchanges.

### 4.1.5.2 Policies and Issues

One of the major issues with respect to the policy of privatisation is the loss of job security of public sector employees. The fear of job loss, reduction of benefits, regulation of labour, downsizing, etc, often results in opposition and resistance in the form of strikes. The social welfare objectives, such as social justice, equal distribution, employment generation, etc, will be compromised as these private players are driven by profit.

Another major problem is the loss of government control over strategic sectors such as defence, telecommunications, infrastructure, etc. This has raised serious concerns about national security and equitable distribution. As per B.A. Prakash, the increasing rate of privatisation may lead to the concentration of power in a few hands. According to him, these private sector monopolies are powerful enough to influence the process of policy-making.

Undervaluation of the public sector undertakings is another major criticism against privatisation. Uma Kapila cited the examples of Bharat Aluminium Company Ltd. (BALCO) and Videsh Sanchar Nigam Limited (VSNL) and explained that while incorporating privatisation of public sector undertakings, the stakes were sold at low market value.

The New Economic Policy was a structural realignment of the Indian economy, which had several repercussions. These reforms had brought structural changes which had a longer impact and stabilisation changes that had a short-term impact. Although there exist several issues with respect to the policies such as globalisation, liberalisation and privatisation, it has redefined India and its role in the global political, social and economic platform.

Liberalisation is not free from criticism. It is noted that the high economic growth rates achieved post-1991 did not translate into a proportionate increase in employment, particularly in the formal sector. This phenomenon, often termed 'jobless growth', meant the benefits of expansion did not reach all segments of society equally. Critics point to an increase in the gap between the rich and the poor. While certain sectors like IT and finance boomed, the economic gains were not evenly distributed across regions or social classes, leading to increased income disparities. According to Jean Dreze, Income and regional inequalities widened as growth concentrated in urban and skilled sectors, leaving rural and unskilled populations behind.

It is observed that Agriculture received relatively less policy attention, and the industry and services often flourished at the expense of the agricultural sector, which continued to employ a large majority of the population.

Concerns were also raised about the relative decline in public spending on critical social sectors like health and education.

Opening up the economy to global market forces increased India's vulnerability to international economic volatility and shocks, as demonstrated during global financial crises. The increased competition from foreign companies following trade liberalisation posed challenges to many domestic industries. This led to concerns about job losses and a negative impact on the informal sector, which lacked the capacity to compete with larger, more efficient global players.

It can be said that on one hand these reforms generated growth and global integration, but on the other hand exposed the nation to its structural weaknesses such as rising inequality, joblessness, etc.

## Recap

- ◆ Internal and external instability led to the fall in India's growth rate during the 1980s
- ◆ The Indian economy during the 1980s faced rising fiscal deficits, a weakening public sector, and mounting external debt
- ◆ The role of the State shifted from a provider to a facilitator
- ◆ The state-led pricing mechanisms, regulation of interest rates and other restrictions were replaced by market mechanisms
- ◆ In the post-reform period, India followed an export-led strategy by integrating with global trading networks
- ◆ The New Economic Policy industrial licensing and encouraging private participation

- ◆ Globalisation is a process of integration of the domestic economy with the foreign economy
- ◆ Globalisation removed the quantitative restrictions in trade, which ensured the free flow of goods and services, finances and the formation of MNCs
- ◆ Globalisation involves the exchange of culture, politics and social norms
- ◆ Liberalisation is the process by which the government removes the restrictions imposed on industrial, trade, and financial sectors
- ◆ Liberalisation led to the abolition of the licensing mechanism, enabling the free entry of business firms
- ◆ The Monopoly Restricted Trade Practice Act (MRTP) was amended
- ◆ Privatisation is the transfer of ownership, management and control of the public sector to the private sector
- ◆ Disinvestment is a form of privatisation by which the government sell a portion or the whole of their equity in Public Sector undertakings to the private sector, institutions or the public

## Objective Questions

1. What term was used to describe India's slow growth of around 3.5% from the 1950s to the 1980s?
2. Which policy approach dominated India's development strategy before the 1990s?
3. Which economic crisis in 1991 pushed India towards the New Economic Policy reforms?
4. Which organisation did India approach for financial assistance during the 1991 crisis?
5. The New Economic Policy of 1991 is also referred to as what programmes?
6. What were the three major components of the reforms introduced in 1991?

7. Which system required industrial licensing before 1991?
8. The industrial reforms of 1991 dismantled which restrictive system limiting private industry expansion?
9. Which 1956 policy document emphasised heavy industry development under state control?
10. Which committee recommended banking sector reforms, such as the reduction of SLR and CRR?
11. What was the primary goal of globalisation in India after 1991?
12. What type of investment involves direct ownership and long-term physical investment, like factories?
13. Name the act that restricted the monopoly and expansion of large firms before being amended during liberalisation.
14. What term is used to describe the economic situation where GDP rises, but employment does not grow proportionally?

## Answers

1. Hindu rate of growth
2. State-led
3. Balance of Payment crisis
4. International Monetary Fund (IMF)
5. Structural Adjustment Programmes
6. Liberalisation, privatisation, globalisation
7. License Raj
8. MRTP restrictions
9. Industrial Policy Resolution of 1956
10. Narasimham Committee
11. Export-led growth

12. Foreign Direct Investment (FDI)

13. MRTP Act

14. Jobless growth

## Assignments

1. Explain the background of the BOP crisis of 1991 in India.
2. What do you mean by globalisation? How was globalisation implemented in India?
3. What are the features of Liberalisation? Explain the major effects of liberalisation?
4. What do you mean by privatisation? Explain the various methods by which privatisation is adopted.
5. Explain the different types of disinvestment.

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## UNIT

# IPR 1991 and Economic Reforms

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ know why India adopted the Industrial Policy Reforms of 1991
- ◆ examine the basic ideas behind fiscal, financial, and trade reforms
- ◆ comprehend the role of the public and private sectors in the economy
- ◆ identify the economic results of these reforms

### Prerequisites

Consider yourself an aspiring industrialist in the 1990s. You have prepared your business plans, selected the product you intend to manufacture, and arranged the initial working capital for production. However, you require a technology that must be imported from a foreign country, such as Russia. You are intending to start the business, but when you enquire, you understand that there is a long procedure to obtain a license in order to start the production. You also come to know that the import of machinery from a foreign country is difficult and requires a series of procedures accompanied by a huge import tariff or tax. When you approach your nearby bank for a loan you learn that the sanctioning of loans is not as easy as it seems.

However, in 1991 you figure that the licensing system has been abolished, it has become much easier to obtain a loan from the bank. You are also able to import the machinery without much delay at a very low import duty. What was the change in policy that cleared the bottlenecks which previously existed? The change is the implementation of the Industrial Policy Resolution of 1991 and a series of reforms in the fiscal, financial, and trading sectors.

## Keywords

Industrial Policy Resolution, De-Licensing, Foreign Direct Investment, Tax Reforms, Fiscal Discipline, Financial Reforms, BASEL Norms, GATT, WTO, TRIPS, TRIMS

## Discussion

### 4.2.1 Industrial Policy 1991

Industrial policy has played a significant role in planning, regulating and promoting the industrial growth in India's economy since independence. The first industrial policy resolution was formulated in 1948, which laid the foundations of a mixed economy where both the public sector and the private sector co-existed harmoniously. However, its successor, Industrial Policy Resolution 1956, gave dominance to the public sector and placed greater emphasis on the government intervention in key industrial sectors.

According to Dutt and Sundaram, the Industrial Policy Resolution 1956 has fostered state-led industrialisation, which was characterised by excessive control, licensing restrictions and limited competition. The subsequent industrial policies in 1977 and the 1980s made only negligible changes by promoting small-scale industries, yet maintaining the earlier regulations on industrial licensing, public sector dominance and barriers. However, in the late 1980s, these steps led to inefficiency of the public sector, low productivity, fiscal and Balance of Payment crisis in 1990-1991.

As per the economic survey 1991, the fiscal deficit (Total Revenue - total expenditure excluding borrowing) was 8.4 % of GDP, inflation was as high as 13% and foreign exchange reserves amounted to pay the import bill of only three weeks. As explained in the earlier units, India approached the IMF for financial aid, in return for which India had to accept certain conditions stipulated by the IMF. The reforms thus implemented are known as the New Economic Reforms of 1991, which comprised major initiatives such as Liberalisation, Privatisation, and Globalisation (LPG). As a part of these reforms Government of India announced a New Industrial Policy or Industrial Policy Resolution (IPR) of 1991 that brought significant transformation in the industrial sector of the economy.

#### 4.2.1.1 Features of IPR 1991

The Industrial Policy Resolution was announced by the Government of India on 24th July 1991. The key features of the Industrial Policy Resolution included the following:

**1. De licensing of the Industrial sector :** The IPR 1991 abolished licensing of the industrial sector except for certain industries due to strategic, environmental and health concerns. According to Dutt and Sundaram, the industries left under licensing include Aerospace and Defence, Industrial explosives, Hazardous chemicals, Alcohol and Tobacco manufacturing sector. It marked an end to the License Raj, which was a system that governed the pre-reform industrial sector. As per this system, the industries were





### 4.2.1.2 Policy and Development Issues

The growth of the industrial sector was limited to capital-intensive and skill-based sectors only, while labour-intensive industries and micro, small, and mini industries did not reap the benefit from the Industrial Policy Resolution 1991. This led to uneven growth and sectoral imbalances. The use of capital-intensive technology replaced workers even in the expanding sectors, leading to an increase in unemployment among industrial workers. Dutt and Sundaram note this phenomenon as jobless industrial growth. Likewise the Small and cottage industries, which followed traditional methodology, also faced a decline in growth. According to Uma Kapila, these industries were not equipped to face competition from within and outside the country.

In addition to these sectoral imbalances, there were regional imbalances among various states of India. The IPR 1991 benefitted the already advanced states like Maharashtra, Gujarat, Karnataka, etc, while the benefits did not percolate to the backward states like Bihar, Odisha and the North Eastern states of India. Dutt and Sundaram observed that the excess deregulation created problems in various sectors. The poor credit appraisal by the Bank in the post-reform era led to an increase in Non-Performing Assets. Likewise, the relaxed environmental standards led to the bypassing of environmental safeguards.

Though the industrial policy resolution was able to bring significant improvements in certain sectors like telecommunication, aviation and the financial sector, growth in the manufacturing sector was not up to the mark. Thereafter, in 2011, the Government of India announced the National Manufacturing Policy aimed to increase the share of manufacturing in GDP to 25% by 2022, focusing on improving infrastructure, promoting innovation and technology, and enhancing the skill base of the workforce. Alongside, a 'Make in India' initiative was launched in 2014 to promote manufacturing in India to attract foreign investment in the industrial sector. Despite many policies, the contribution of the manufacturing sector (factories) to the nation's total output (GDP) has stayed roughly the same, around 15 per cent in the first quarter of 2025. The country has not seen the needed large boost in the manufacturing sector.

### 4.2.2 Major Reforms in India

Prior to 1991, the Indian economy followed a state-led, public sector dominated, inward-looking economy characterised by the domination of public sector. The state, being the major player in the economy, was undertaking multiple roles of producer, facilitator and regulator, which took a toll on the operational efficiency of the public sector. It not only affected the performance of Public Sector Undertakings (PSUs) but also resulted in the mounting deficits of government. The shortage of capital was an added problem which decelerated the growth of the economy.

Besides this, India, being an inward-looking economy which followed a protectionist policy, the availability of advanced technology was considerably less. The quantitative trade restrictions, such as import tariffs, restricted the accessibility of raw materials. This led to the backwardness of Indian economy which eventually landed it on a state of fiscal and Balance of Payment crisis in 1991, with financial resources enough to meet

the import bill of three weeks. When the government of India approached the IMF for monetary aid, it stipulated conditions to restructure the economy through liberalisation, globalisation and privatisation. This proposal was accepted by the Indian government led by Narasimha Rao and incorporated the New Economic Policy 1991, which implemented these reforms in various sectors. Broadly, the reforms can be categorised as fiscal, Financial and trade reforms.

### 4.2.2.1 Fiscal reforms

The economic crisis of 1991 was the result of India's deteriorating fiscal health. According to Indian economic authors such as Misra and Puri, Dutt and Sundaram, the fiscal deficit (Total Expenditure – Total Revenue excluding borrowings), which is one of the major indicators of fiscal position, was as high as 8.4 % of GDP from 6 % in the 1980s. Revenue deficit was around 3.9% which indicated that even the day-to-day revenue requirement of the government was met through borrowing. According to B.A. Prakash, the interest payment alone constituted 39% of revenue receipts which meant that the country was going through a debt trap. Economic Survey 1991-1992 reported that the tax system in India was narrow, regressive and complex where the tax to GDP ratio declined from 16% in 1980s to 14.1% in 1991.

The performance of Public Sector Undertakings (PSUs) declined considerably, leading to their dependency on budgetary provisions. The budgetary subsidies and transfers to PSUs constituted a major share of government finances which overburdened the government. The revenue expenditure, constituting wages, salaries, interest payments, subsidies, etc, was ever increasing, leading to the reduction in capital expenditure, which included the purchase of land, machinery, building, and equipment's investment in shares, etc. The capital expenditure, which either results in the creation of physical/financial assets or a reduction in financial liabilities, was squeezed affecting the long term investment. The poor fiscal situation also contributed to the Balance of Payment crisis, where the current account deficit was around 3.1 % of GDP, and the decline in foreign exchange reserves also fell considerably to meet the import bill of just two to three weeks. Therefore, in order to manage these fiscal imbalances, the government of India initiated a series of fiscal reforms.

#### 1. Tax Reforms

- i. **Direct taxes :** One of the major causes of fiscal imbalances is the inefficient, narrow and regressive tax system, subject to tax evasion, complexity and a narrow tax base. The tax system failed to generate adequate revenue to meet the expenditure and resulted in increasing deficits. As a part of the broader reform launched in 1991, the Government of India constituted a Tax Reforms Committee in August 1991 under the chairmanship of Dr. Raja. J. Chelliah to review the existing tax system and recommend comprehensive reforms to improve its efficiency.

As per Misra and Puri, the Government of India followed the Chelliah committee recommendations, the tax structure was simplified, and the number of tax slabs

was reduced to 20%, 30% and 40%. The personal income tax and corporate tax were lowered to improve tax compliance and encourage investment. Measures were also taken to eliminate the exemptions and deductions, thereby widening the tax base.

- ii. **Indirect taxes :** Chelliah committee recommendations to reduce the Customs duty on imported goods were implemented as a part of trade liberalisation. In addition to this, steps were laid to expand the MODVAT or Modified Value Added Tax, which was implemented in 1986 to reduce 'tax on tax'. MODVAT was later replaced by CENVAT (Centralised Value Added Tax) in 2000, which covered more goods and services and VAT (Value Added Tax) in 2005, which eventually led to the constitution of Goods and Services Tax in 2017.
- iii. **Tax Administration :** Chelliah Committee recommendations led to the use of technology to detect tax evasion and thereby increase the efficiency of the system. It also laid the foundations for the use of PAN (Permanent Account Number) and other online platforms to increase transparency.

## 2. Public Expenditure

According to Uma Kapila, the fiscal reforms included a considerable reduction of subsidies and more importance was given to the capital expenditure. The subsidies were reduced to food, fertiliser, and petroleum, thereby curtailing unnecessary expenditure. As per the RBI reports, 2016-17, Direct Benefit Transfer (DBT) in which the welfare schemes implemented by the Government were linked to the Aadhar card of the beneficiaries in order to prevent leakages and improve transparency.

## 3. Fiscal Discipline

The increasing deficits were one of the major problems faced by the Indian fiscal system. The public expenditure or spending was higher than the revenue earned. The public spending was allocated to unproductive expenditures like interest payments, salaries, etc, which led to the ever-increasing debt. These fiscal imbalances caused the loss of investors' confidence, a lack of funds for development. Thus Fiscal Responsibility and Budget Management (FRBM) Act was passed by the Parliament in 2003 to follow fiscal discipline and transparency. It mandated fiscal deficit and revenue deficit targets and prohibited borrowing from the RBI except for exceptional circumstances like calamities, war, etc.

## 4. Disinvestment of Public Sector Undertakings

Before the new economic reforms, the Indian economy was dominated by the public sector. However, the operational inefficiencies of public enterprises and their dependence on government finances led to the fiscal crisis in India. Later, when the fiscal reforms were implemented, the government initiated the disinvestment mechanism by which the ownership of Public enterprises was transferred to the private sector.



### 4.2.2.2 Financial Reforms

The Indian financial system was highly regulated with administered interest rates determined by the government and not market forces. It was a state-dominated sector with the public sector banks dominating the banking sector, and there was a lack of competition according to Misra and Puri. The profitability of the banking sector was low, and there was a high amount of NPAs (Non-Performing Assets) and capital inadequacy. The Indian capital market also suffered from weak infrastructure, lack of transparency and lack of investor confidence.

According to B.A. Prakash, Foreign Exchange reserves were considerably low to meet the import bills of roughly two - three weeks. Fiscal deficit was increasing, and inflation was as high as 13%. These issues necessitated the urgent need to revive the Indian Financial Sector through a set of reforms.

The Narasimham Committee was constituted under the chairmanship of M. Narasimham, the former RBI governor, to improve the efficiency and competitiveness of the banking sector, thereby reviving confidence in the financial system. However, the crisis, such as the rising NPA, persisted with the public sector bank facing capital inadequacy and a lack of modernisation. In addition to this, the global crisis, such as the East Asian Crisis, which was a currency and financial crisis faced by East Asian countries such as Thailand, Indonesia, Malaysia, South Korea and the Philippines due to overdependence on foreign capital and the withdrawal of capital by foreign countries. In such a context Government of India constituted the Narasimham Committee II in 1997, named as Banking Sector Reforms. Therefore, as per Dutt and Sundaram, the reforms in the financial sector can be classified as First-generation reforms or Phase I and Second-generation Reforms. Major financial sector reforms initiated in India are discussed in this section.

#### 1. Banking Sector reforms

Major banking sector reforms include the reforms undertaken in monetary policy, which have a significant effect upon their operation and performance. Likewise, the reforms initiated exclusively in the banking sector, such as Basel norms, are considered.

- i. **Monetary policy** : According to Misra and Puri (2022), the rates were reduced to ensure liquidity in commercial banks. The Statutory Liquidity Ratio (SLR) was reduced from 38.5% in 1991 to 25% in 1997. The Cash Reserve Ratio (CRR) was reduced considerably from 15% to 5.5 % in early 2000. The interest rates, which were earlier fixed by the government, were deregulated and left to be fixed according to market conditions.
- ii. **BASEL Norms** : BASEL 1 norms were a set of International Banking Regulations issued by the BASEL Committee on Banking Supervision (BCBS) under the Bank for International Settlements (BIS) with headquarters situated in the city of Basel in Switzerland. Basel Norms 1 was introduced by the RBI in 1992. According to the RBI Report (1991), the Basel norms mandated the

maintenance of a Minimum Capital to Risk-weighted Assets Ratio in order to strengthen capital adequacy, and encourage international banking.

- iii. **Income Recognition Asset Classification and Provisioning (IRAC)** : This was introduced by RBI to improve transparency, soundness and discipline. Measures were taken to identify NPAs and improve the transparency and ensure fair competition.
- iv. **Entry of Private and Foreign Banks** : According to B.A. Prakash, the reforms encouraged private sector banks like ICICI, HDFC and other foreign banks.
- v. **Government Securities** : The government securities were floated in the money market. New instruments like Treasury Bills, Commercial Papers (CPs), and Certificates of Deposit (CDs) were introduced.

## 2. Capital Market Reforms

There were several reforms initiated in the capital market to improve the efficiency, transparency and availability of funds.

The Securities Exchange Board of India (SEBI) was constituted in 1992 to regulate and promote the operations of the stock market by ensuring investors' protection. This removed the bureaucratic control over the capital market. According to RBI reports, the National Stock Exchange was launched in 1994, and trading was shifted from paper-based to screen-based trading. The Foreign Direct Investment (FDI) and Foreign Institutional Investment (FIIs) were encouraged.

## 3. Non-Banking Financial Companies (NBFCs)

The NBFCs, which performed non-banking functions such as insurance companies, asset management companies, investment banks, etc, were brought under the RBI. A minimum capital standard was stipulated by the RBI, and the Capital to Risk-weighted Assets Ratio (CRAR) of 15% made mandatory. Besides this, reforms were also undertaken in the insurance sector. According to B.A. Prakash, private participation was encouraged, and FDI was permitted in this sector.

### 4.2.2.3 Trade Reforms

Trade reforms were one of the major policy responses to the Balance of Payment crisis in the Indian economy in 1991. Before 1991, India followed a protectionist and inward-looking policy in which the imports were subjected to quantitative restrictions like higher tariffs. Besides this, licensing on certain import and export sectors was also practised. Therefore, with the Structural Adjustment Programme, several reforms were initiated in the export sector.

- i. **Reduction in Import Tariffs** : As per the Economic Survey 1992-93, before 1991, the import tariff was as high as 300% but the trade reforms reduced the tariff from 10-15% by 2010. The Structural Adjustment Programme, which included liberalisation, which involved the abolition of licensing, was also implemented in the trading sector, leading to the removal of licensing for most imported items. According to Uma Kapila, by 2001, almost all the quantitative



restrictions were removed, and a system of regulated and incentivised import system was established.

- ii. **Export Promotion :** The export promotion measures like the Export Promotion Capital Goods (EPCG) scheme, Export Oriented Units (EOUs), Special Economic Zones (SEZ) and duty drawback schemes were introduced. These measures aimed at making the export sector more efficient, globally competitive and simplifying documentation.
- iii. **Exchange Rate Reforms :** Current account convertibility or the ease with which domestic currency can be converted into foreign currency for transactions such as import export payments, remittances, interest payments, investments, etc, was implemented in India in 1994. Likewise, the Government of India imposed devaluation or deliberate reduction in the value of currency in 1991 to make exports cheaper, thereby boosting exports.
- iv. **Integration with Global Trade :** After the New Economic reforms, India implemented policies in tandem with the global trade regime by integrating with the General Agreement on Tariffs and Trade (GATT), which was later subsumed under the World Trade Organisation (WTO). The inward and protectionist policy followed by India was replaced by the outward and liberalised trade practices that aligned with GATT provisions.

The TRIPS or Trade Related Property Rights (TRIPS) was imposed by India in 1995, which set a minimum standard to protect the intellectual property rights, such as patents, copyrights, etc. The Trade Related Investment Measures (TRIMS) were agreed by India, according to which it cannot impose any restrictions on investment that are trade-distorting.

## Recap

- ◆ The New Industrial Policy or Industrial Policy Resolution (IPR) of 1991 brought significant transformation in the industrial sector of the economy
- ◆ IPR 1991 abolished industrial licensing
- ◆ IPR 1991 relaxed the Monopoly Restrictive Trade Practices (MRTP)
- ◆ The IPR 1991 facilitated the flow of advanced technology to India
- ◆ India had deteriorating fiscal health and a BOP crisis prior to 1991, which necessitated fiscal, financial and Trade reforms

- ◆ As a part of fiscal reforms, efforts were taken to widen the tax base and lower income and corporate tax
- ◆ The reforms in indirect tax included the practice of the Value Added Tax (VAT) system, which later evolved into the Goods and Services Tax (GST) system
- ◆ Reforms on expenditure included the reduction of subsidies, and importance was given to the capital expenditure
- ◆ The Fiscal Responsibility and Budget Management (FRBM) Act was passed by the Parliament in 2003 to follow fiscal discipline and transparency
- ◆ The financial sector reforms included reforms in the banking sector, such as monetary policy revisions, introduction of BASEL norms, efforts to improve transparency and ensure fair competition and entry of private and foreign banks
- ◆ The capital market reforms included the setting up of SEBI and enabling the flow of investment
- ◆ Trade reforms included a reduction in Import tariffs, export promotion measures, exchange rate reforms and Integration with global trade

## Objective Questions

1. In which year was the first Industrial Policy Resolution formulated in India?
2. Which Industrial Policy Resolution gave dominance to the public sector?
3. What system existed before 1991 that required licenses for industrial establishment and expansion?
4. What was the fiscal deficit in 1991 as a percentage of GDP?
5. Under IPR 1991, FDI was permitted up to what percentage?
6. Which committee was formed in 1991 to suggest tax reforms?
7. Which tax system replaced MODVAT?

8. Under which act was fiscal discipline mandated in 2003?
9. Which committee was formed for banking sector reforms?
10. Where are the BASEL norms headquartered?
11. Which regulatory body was created in 1992 for capital market regulation?
12. In which year was current account convertibility introduced in India?
13. Which international trade organisation replaced GATT?
14. Which agreement deals with the protection of intellectual property rights?

## Answers

1. 1948
2. 1956
3. License-Raj
4. 8.4%
5. 51%
6. Chelliah
7. CENVAT
8. FRBM
9. Narasimham
10. Basel
11. SEBI
12. 1994
13. WTO
14. TRIPS

## Assignments

1. Explain the features of IPR 1991?
2. Discuss the problems of IPR.
3. Explain the fiscal sector reforms? How did it improve the fiscal position of India?
4. Explain financial sector reforms?
5. Explain the reforms in the Trade.

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SGOU



## UNIT

# Demonetisation of Currency Notes

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ comprehend the process of demonetisation of currency notes
- ◆ identify the main objectives of withdrawing ₹500, ₹1,000 and ₹2,000 notes
- ◆ explain the basic economic effects of demonetisation

### Prerequisites

How much money in the form of cash do you find in your wallet? If you observe, you will find that the amount of money you carry is less; money is paid through the online app installed in your phone or debit card. Although the use of these payment methods existed, this became a predominant method of payment in November 2016. This was when the Prime Minister of India declared the withdrawal of 500 and 1000 rupee denomination notes. This sparked the idea of a digital and cashless economy. You will remember yourself approaching the nearby banks in November 2016, to replace the pocket money consisting of 500 rupee notes given by your grandparents. You might have also experienced seeing the 2000 rupee note for the first time. The present unit deals with the background of demonetisation and the effects of demonetisation.

### Keywords

Legal Tender, Demonetisation, RBI, Counterfeit Notes, Black Money, Income Declaration Scheme, BHIM, RuPay Card, Financial Inclusion, PMJDY, UPI



## Discussion

### 4.3.1 Money and the Concept of Legal Tender

The history of the economy has undergone a huge transformation from the barter economy to the current monetary economy. Since the barter economy involved the exchange of one commodity for another, there were several difficulties associated with it. This necessitated the use of money as a medium of exchange and standard unit of value. According to the economists, in the early period, salt, beads, precious stones, etc., were used as money. When the monetary system evolved, money took the form of metallic coins and paper currency. In the later period, when the state began to interfere in the monetary matters, they began to sanction certain metallic coins and paper currency notes as 'legal tender'.

According to the Reserve Bank of India (RBI), legal tender is money that is legally recognised in a country and accepted by law as a valid form of payment. Such a legal tender money thus becomes universally acceptable within the jurisdiction. In India, the legal tender money includes ₹500, ₹200, ₹100, ₹50, ₹20, ₹10 notes and ₹1, ₹2, ₹5, ₹10, ₹20 coins. These denominations of Indian rupee notes are accepted as money anywhere in India. If, in certain cases when the government or the monetary authority withdraws legal tender status of a currency, then the currency loses its value, becomes invalid and will not be accepted as money anymore. This process is called demonetisation. India has withdrawn the legal tender money more than once to date. The following section gives an account of demonetisation.

#### 4.3.1.1 Definition of Demonetisation

Demonetisation is a process in which the government declare a currently circulating currency or a legal tender money to be illegal tender or withdraws its legal tender right. The withdrawal of currency may be followed by the introduction of new currency of the same denomination or a new denomination. As per the study conducted by Mundhe (2018), France was the first country to use the word demonetise in the period around 1850-1855. Demonetisation or withdrawal of currency notes was undertaken for various reasons, such as to curb the circulation of counterfeit notes, check on black money, to fight against corruption, to maintain durability, etc. Over the years, several countries have adopted demonetisation, in which some of them have become successful.

In 2002, about twelve European Union countries introduced a new currency Euro, to form an economic union with a common currency. Likewise, the Australian government replaced paper-based notes with polymer notes of the same denomination to curb the black money and security, which improved the business relations of the country. The Zimbabwean government also initiated demonetisation by withdrawing the legal tender rights of the Zimbabwean dollar with the American dollar. However, the demonetisation experience has not always been successful; countries like Congo, the Soviet Union, Myanmar, and Nigeria suffered undesirable effects. According to Jyothi Khate (2018), the demonetisation in Congo and the Soviet Union led to the fall of the government. While Myanmar saw a rise in inflation when it demonetised 80 % of its currency to check on the black market.

### 4.3.1.2 Demonetisation in India

The first time India demonetised its currency was in the pre-independent India on 12<sup>th</sup> Jan 1946 (Saturday). The main intention behind this initiative was to curb the black market and tax evasion. As per the study conducted by Rajiva Ranjan Singh and Anandita Bagchi (January 2018), the currency notes of denominations INR 500, INR 1,000, and INR 10,000 were required to be replaced within a stipulated time period. The move was not considered a successful one as currency worth INR 9.07 crores was not exchanged. Besides, the notes exchanged by the princely states, which were not a part of British India, were not questioned. It is also noted that in 1954, the notes such as INR 1,000, INR 5,000, and INR 10,000, which were demonetised, were reintroduced into the system.

The second demonetisation was initiated in the year 1978 when the first non-Congress Congress, which was a Janatha Party led government, took charge of the office. The main objective of the step was also to control the illegitimate black money. As per the second demonetisation, currency notes of denominations INR 1,000, INR 5,000, and INR 10,000 were withdrawn from legal tender status. As per the reports and study conducted by Mundhe (2018), out of the INR 146 crore of the estimated demonetised notes, 124.45 crore were exchanged, and a sum of INR 21.55 crore, or 14.76% of the demonetised currency notes, were extinguished. Notes of denominations INR 500 and INR 1000 were reintroduced in 1987 and 2000, respectively.

The third demonetisation was adopted by the National Democratic Alliance (NDA) government led by Prime Minister Narendra Modi on November 8<sup>th</sup>, 2016. This is discussed in the following section.

### 4.3.2 An Overview of 2016 Demonetisation

As per the RBI Annual Report of March 2016, the total bank notes in circulation were 16.42 lakh crore, which was around US\$240 billion. Of this, around nearly 14.18 lakh crore (US\$210 billion), which was 86% was of 500 and 1000 denomination banknotes. The declaration of the government on November 8<sup>th</sup> 2016, involved the elimination of these 500 and 1000 rupee note denominations from circulation, and the introduction of 2000 rupees. The main objective of this demonetisation measure was to curb black money and corruption, but the mission intended to fulfil multiple objectives, like to control the counterfeit currency, to end terror financing, to scrap tax evasion, to promote a digital or cashless economy, to enable financial inclusion, etc. The government has adopted several measures to achieve these objectives.

**1. Identification of Black Money sources :** The Government of India launched the Income Declaration Scheme (IDS) under the Finance Act 2016 and implemented it from 1<sup>st</sup> June, 2016 to 30<sup>th</sup> September 2016, whereby people were given the opportunity to disclose their unaccounted income. This measure was intended to bring back the black money into the system. As per this Act, the people have to pay 45% of the declared income as tax and are exempted from further scrutiny. As per Uma Kapila, it was a pre-demonetisation strategy.



**2. Tracking of High Transaction Flows :** Permanent Account Number (PAN) was made compulsory for high-value transactions, mainly intended to track the cash flow.

**3. Promotion of Digital Payment Mechanism :** Several initiatives were introduced to promote digital payments, including programmes and platforms such as VISAKA, BHIM, and RuPay, which aimed to familiarise citizens with cashless transactions and provide easy access to digital financial services.

- i. **Vittiya Saksharata Abhiyan (VISAKA) :** The Vittiya Saksharata Abhiyan was launched by the Ministry of Human Resource Development (MHRD) to familiarise with the cashless economy by promoting digital financial literacy among students and youth. Students were encouraged to adapt to digital modes of payment.
- ii. **Bharat Interface for Money (BHIM) :** Bharat Interface for Money (BHIM), popularly known as BHIM, is a mobile app launched by National Payment Corporation of India on 30<sup>th</sup> December 2016 based on UPI (Unified Payments Interface). As per National Payment Corporation of India, a UPI ID is a virtual Payment Address that links one's bank account to a digital identity that enables one to make bank-to-bank transactions. Although UPI was launched prior to demonetisation, it became prominent due to the low-cost transfer and real-time transaction. The RBI report for 2017 shows that the UPI transaction grew from less than 1 million in October 2016 to 150 million by October 2017.
- iii. **RuPay Card :** The RuPay card payment network, launched in 2012, gained due importance in the post-demonetisation period. Rupay is an Indian domestic card payment network developed by the National Payments Corporation of India (NPCI) to reduce the dependency on international cards like VISA and Mastercard. In the post-demonetisation period, RuPay card was linked to Pradhan Mantri Jan Dhan Yojana Accounts.

#### 4. Financial Inclusion

Financial inclusion measures such as Pradhan Mantri Jan Dhan Yojana (PMJDY) account, which is intended to increase the accessibility of banking operations to low-income households. According to the Economic Survey 2016-17, about 20 crore bank accounts were opened under PMJDY.

##### 4.3.2.1 Effect of Demonetisation in India

Demonetisation brought immediate and visible changes to the Indian economy and everyday life. Its effects were felt across households, businesses, banks, and markets in both positive and challenging ways as follows.

#### Positive effects of Demonetisation

**1. Increase in Digital payments :** The use of cashless transactions and digital payments has increased. According to the Economic Survey 2017, there was a sudden spike in the use of Unified Payment Interface (UPI), card transactions. Although the use of cash

was normalised, there was a massive shift to digital payments. Even the small vendors shifted to digital methods like mobile wallets. This benefited the growth of mobile wallet providers like Paytm, Mobikwik, etc.

**2. Increase Financial Inclusion :** As per the RBI Annual Report of 2016-17, there was a massive increase in bank accounts by over ₹ 6.5 lakh crore between November and December 2016.

**3. Reduction in Terror Financing :** The illegal activities, such as Terror financing, smuggling, etc, could be checked because the government has stipulated a limit to which the old currency could be withdrawn. Therefore, only a meagre amount of such money could be exchanged, or else one had to face enquiry.

**4. Increase in Tax Compliance. :** Demonetisation promoted greater formalisation of the economy. As per the Economic Survey, more people entered the tax net and the new tax filers increased by 25 % in the post-demonetisation period.

**5. Gold prices :** The price of Gold and silver jewellery increased significantly as people converted high-denomination notes and black money to a safe haven asset.

### **Negative Effects of Demonetisation**

**1. Contraction of Growth :** According to the Economic Survey 2017-18, there was a sharp decline in the growth rate of GDP in India, especially in the construction, retail sector, trade and agriculture. The GDP declined from 8.2% in Financial Year (FY) 2016 to 7.1% in FY 2017.

**2. Effects on the Unorganised Sector :** According to Uma Kapila, the unorganised sector, which consists of 90 % workforce, was severely affected. The daily wage earners, street vendors, and agricultural labourers all faced a fall in income. The RBI report of 2017 points out that the cash shortage and the resultant underutilisation of resources led to the closure of business even temporarily. Likewise, the Economic Survey mentions the reverse migration of people to rural areas due to the fall in employment in the urban areas.

**3. Black Money :** One of the prime objectives of demonetisation was curbing the black money, but it was reported that only a small portion of black money is stored in the form of cash and a significant amount was stored in the form of physical assets like land, gold, etc. The withdrawal of higher denomination notes such as INR 500 and INR 1000 was a good initiative to check on the black money because the higher denomination of money will make it easier to stack more amount of black money. However, corruption could not be reduced by adopting demonetisation.

**4. Currency in Circulation :** As per the RBI report of 2017, around 99.3% of the currency was returned to the banking system. This meant that the black money was not entirely extinguished. Economic survey 2017-18 noted that the composition of lower denomination notes increased.

**5. Consumption and Investment :** Demonetisation led to a fall in consumption due to uncertainty. Investment also fell considerably in the private sector.



## Recap

- ◆ Legal tender is money that is legally recognised in a country and accepted by law as a valid form of payment
- ◆ Demonetisation is a process in which the government deprive the currently circulating currency of its legal tender status
- ◆ The first time India demonetised on 12<sup>th</sup> Jan 1946 to curb the black market and tax evasions
- ◆ The second demonetisation was initiated in the year 1978
- ◆ The third demonetisation was adopted on November 8<sup>th</sup>, 2016
- ◆ The main objective of the third demonetisation is the identification of Black Money sources
- ◆ Other objectives demonetisation are tracking of high transaction flows, promotion of digital payment mechanisms, and financial inclusion
- ◆ A contraction of growth was experienced after demonetisation
- ◆ There was a fall in the income of daily wage earners, street vendors, and agricultural labourers after demonetisation
- ◆ The use of cashless transactions and digital payments increased
- ◆ Demonetisation led to financial inclusion
- ◆ Only a small portion of Black money could be curbed, and corruption could not be reduced by adopting demonetisation
- ◆ Around 99.3% of the currency was returned to the banking system
- ◆ Demonetisation led to a fall in consumption and Investment
- ◆ Demonetisation promoted greater formalisation of the economy and increased tax compliance

## Objective Questions

1. What is demonetisation?
2. Which currency notes were demonetised in India on 8<sup>th</sup> November 2016?
3. Which mobile app was launched to promote digital payments post-demonetisation?
4. What is the full form of UPI?
5. Which card payment network gained importance after demonetisation?
6. What scheme aimed to increase financial inclusion during demonetisation?
7. Which ministry launched the Vittiya Saksharata Abhiyan (VISAKA)?
8. Name one positive effect of demonetisation on digital transactions.
9. Name one negative effect of demonetisation on the unorganised sector.
10. What percentage of currency was returned to banks after the 2016 demonetisation?

## Answers

1. Withdrawal of the legal tender status of currency
2. ₹500 and ₹1000
3. BHIM
4. Unified Payments Interface
5. RuPay
6. Pradhan Mantri Jan Dhan Yojana (PMJDY)
7. Ministry of Human Resource Development (MHRD)
8. Increase in digital payments
9. Fall in income of daily wage earners
10. 99.3%



## Assignments

1. Discuss the evolution of money.
2. What do you mean by legal tender? Explain the process of withdrawal of legal tender money.
3. Make a list of countries that have demonetised their currency notes and explain the effect of demonetisation.
4. What are the effects of demonetisation?

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**BLOCK**

# **Recent Economic Policy Issues**



# UNIT

## Financial Inclusion

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ understand the concept of financial inclusion
- ◆ discuss the significance of financial inclusion
- ◆ differentiate between the Planning Commission and NITI Aayog

### Prerequisites

Meera ran a small handicraft business from her home in a remote village. She was talented, and her handmade products were loved by many. However, despite her skills and hard work, expanding her business felt impossible. She had no proper savings, no access to a bank loan, and no knowledge of financial schemes that could support her. Every month, she had to depend on middlemen who took a large share of her earnings, leaving her with barely enough to sustain her family.

One day, during a village gathering, an official from the city spoke about various government programmes that helped small businesses grow. He explained how people could open bank accounts without any hassle, get small loans at low interest rates, and even receive financial support directly into their accounts. Meera listened carefully, but she had her doubts. Was this system really meant for people like her? Could such policies truly change her life? As she discussed it with other villagers, she realised something interesting. Some of them had already benefited from these schemes, while others had struggled due to a lack of awareness or access.

In every economy, financial opportunities are not just about money; they are about creating systems that allow people to grow, innovate, and secure their future. When these systems function well, individuals like Meera can break free from economic limitations and build a stable livelihood. But when they fail, people are left behind, struggling to find a way forward.

This journey of understanding financial accessibility and economic planning is essential to realising how policies shape lives.

## Keywords

Financial Inclusion, Planning Commission, NITI Aayog, Economic Development, Policy Planning, Government Schemes, Microfinance, Direct Benefit Transfer, Digital Transactions

## Discussion

### 5.1.1 Financial Inclusion Strategy

Financial inclusion refers to ensuring that individuals and businesses, particularly those from low-income and vulnerable sections, have access to useful and affordable financial products and services. These include banking, credit, insurance, payment systems, and savings, delivered in a responsible and sustainable manner. In India, the drive for financial inclusion has been recognised as a major tool for promoting economic development, reducing poverty, and improving the quality of life. The importance of a well-planned financial inclusion strategy lies in its ability to integrate the underserved population into the formal financial system, thereby enabling equitable growth and social justice.

India's financial sector has historically been unable to serve a large segment of its population, especially in rural and remote areas. Barriers such as low literacy levels, lack of financial awareness, geographical distance from bank branches, and absence of formal identification have prevented millions from accessing basic financial services. This exclusion has kept many outside the benefits of economic growth, making it harder for them to save, invest, or protect themselves against financial shocks. To bridge this gap, a structured financial inclusion strategy became necessary, not just to extend banking services, but also to improve financial literacy and build trust in the financial system.

India's approach to financial inclusion is both structured and evolving. It combines technological innovation with social outreach, supported by government policies, regulatory reforms, and the active role of financial institutions. Below are the strategic pillars that form the foundation of India's financial inclusion efforts.

- a. **Pradhan Mantri Jan Dhan Yojana (PMJDY)** : The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in August 2014, revolutionised access to financial services in India. The core idea behind this initiative was to ensure that every household has at least one basic savings bank account, regardless of their income or location. This massive campaign was designed to bring



the unbanked population into the formal financial system. The achievements of PMJDY are remarkable; over 50 crore bank accounts have been opened so far. These accounts come with zero balance requirements, debit cards (RuPay), accidental insurance, and an overdraft facility. More importantly, the integration of PMJDY with Aadhaar (unique identity) and mobile numbers, famously called the JAM trinity (Jan Dhan–Aadhaar–Mobile), has laid the groundwork for transparent and direct transfer of government benefits. This integration has significantly reduced corruption and leakages in welfare schemes, allowing subsidies to reach the intended beneficiaries with greater efficiency.

- b. Business Correspondents (BCs) and Banking Infrastructure :** One of the biggest hurdles in achieving financial inclusion was the lack of physical banking infrastructure, especially in remote rural areas. To address this, the Reserve Bank of India (RBI) promoted the Business Correspondent (BC) model. Under this approach, individuals or institutions act as bank agents in underserved regions and provide banking services on behalf of the banks. Using mobile technology, micro-ATMs, and biometric verification, BCs have taken basic banking services like cash deposits, withdrawals, remittances, and balance inquiries to the doorstep of rural customers. This cost-effective model has proved especially useful in areas where opening full-fledged bank branches is not viable. As a result, the BC network has emerged as a backbone of last-mile delivery in financial services.
- c. Direct Benefit Transfer (DBT) and the Rise of Digital Payments :** The Direct Benefit Transfer (DBT) mechanism has been a major policy innovation in delivering welfare benefits efficiently. Under DBT, subsidies and payments under schemes like LPG (PAHAL), MNREGA wages, old-age pensions, and scholarships are directly transferred into the bank accounts of beneficiaries. This move not only ensures faster delivery but also limits leakages, delays, and corruption. The rise of digital payment systems, such as Unified Payments Interface (UPI), BHIM app, mobile wallets, and QR code-based systems, has made even small-value transactions easy, quick, and secure. These platforms have especially benefited rural and semi-urban populations by allowing them to transact without needing cash, thereby increasing their participation in the formal economy.
- d. Microfinance and Self-Help Groups (SHGs) :** Microfinance Institutions (MFIs) and Self-Help Groups (SHGs) have played a major role in providing small loans to low-income households, particularly women, who are often excluded from mainstream banking services. These models are based on group guarantees and social trust, allowing people without collateral or formal credit history to access finance. Government programs like the National Rural Livelihoods Mission (NRLM) have scaled up the SHG model, enabling millions of women across rural India to engage in productive activities such as farming, dairy, weaving, and petty trade. SHGs not only promote savings and credit but also foster community participation, skill-building, and empowerment.
- e. MUDRA Scheme and MSME Credit Support :** The MUDRA (Micro Units Development and Refinance Agency) scheme, introduced in 2015, aims to

strengthen micro and small businesses, the lifeblood of India's economy. These businesses often face challenges in accessing affordable credit due to a lack of formal documentation or credit history.

Under MUDRA, loans are categorised into three levels:

- ◆ Shishu (loans up to ₹50,000) for startups and small ventures
- ◆ Kishore (₹50,000 to ₹5 lakh) for businesses looking to expand
- ◆ Tarun (₹5 lakh to ₹10 lakh) for well-established enterprises

These loans are collateral-free and designed to cater to the credit needs of informal businesses, artisans, vendors, and service providers. By improving access to finance, MUDRA supports entrepreneurship, job creation, and local economic development.

**f. Social Security Schemes for the Poor** : Recognising the vulnerability of low-income households to health, accident, and old-age risks, the government launched a set of low-cost insurance and pension schemes linked with Jan Dhan accounts:

- ◆ Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY): Life insurance cover of ₹2 lakh at a nominal premium.
- ◆ Pradhan Mantri Suraksha Bima Yojana (PMSBY): Accidental death/disability insurance of ₹2 lakh for just ₹12 per annum.
- ◆ Atal Pension Yojana (APY): A contributory pension scheme aimed at providing a regular income after retirement to workers in the informal sector.

These schemes provide a much-needed safety net and bring financial resilience to poor families, many of whom otherwise remain uninsured and unsupported in emergencies.

**g. Financial Literacy and Consumer Awareness** : Access to financial services alone is not enough; people need to understand how to use these services wisely and safely. Hence, promoting financial literacy has been a key focus area of India's financial inclusion strategy. The RBI, along with institutions like NABARD, has established Financial Literacy Centres (FLCs) across districts. These centres, along with media campaigns and school programs, teach people about saving habits, budgeting, banking procedures, responsible borrowing, and digital security. Creative initiatives like "RBI Kehta Hai", using vernacular languages and relatable content, have made financial concepts more accessible to the masses.

**h. National Strategy for Financial Inclusion (NSFI) 2019–2024** : To guide and unify efforts in financial inclusion, the Government of India and RBI jointly released the National Strategy for Financial Inclusion (NSFI) for the period 2019–2024. This strategy outlines specific goals and action points to achieve universal access to formal financial services.

Key targets include:



- ◆ Ensuring that every adult has access to a basic financial account.
- ◆ Widespread adoption of insurance and pension coverage, especially among low-income groups.
- ◆ Strengthening the digital and cybersecurity infrastructure.
- ◆ Improving consumer protection and grievance redressal mechanisms.

The NSFI also emphasises collaboration among stakeholders, including government ministries, regulators like RBI, SEBI, IRDAI, financial institutions, fintech firms, and NGOs. The strategy aims not just for access, but also for usage, quality, and impact of financial services.

India's financial inclusion strategy represents a comprehensive and evolving roadmap to bring every citizen into the fold of formal financial systems. However, challenges such as dormant accounts, limited credit access, and digital illiteracy still persist. Going forward, the success of financial inclusion will depend not just on expanding access, but also on deepening usage, building trust, and ensuring the financial well-being of the most marginalised communities. A truly inclusive financial ecosystem will be the cornerstone of sustainable and equitable economic development in India.

Despite these efforts, several challenges still exist, such as:

- ◆ **Dormant Accounts:** A significant number of Jan Dhan accounts remain inactive.
- ◆ **Digital Divide:** Low internet access and digital literacy in rural areas can affect the effectiveness of technology-driven solutions.
- ◆ **Credit Delivery:** Small and marginal borrowers still face difficulty in accessing formal credit due to collateral requirements and complex documentation.
- ◆ **Trust Deficit:** Some sections of society still prefer informal financial channels due to a lack of trust or familiarity with formal institutions.
- ◆ **Low Insurance Penetration:** A large section of the population remains uninsured.
- ◆ **Digital Divide:** Poor internet access, especially among women and the elderly in rural areas, limits digital financial inclusion.
- ◆ **Cybersecurity and Fraud Risks:** As digital transactions grow, so does the risk of fraud and misuse.

Financial inclusion is not just about opening bank accounts or offering credit; it is about empowering people with the tools to improve their economic well-being. A strong financial inclusion strategy must focus not only on access but also on usage and quality of services. India's financial inclusion strategy is among the most ambitious in the world. By combining technology, targeted schemes, institutional reforms, and

awareness programs, the country has taken significant steps toward bringing every citizen into the financial mainstream. True financial inclusion is not just about opening accounts; it is about regular usage, financial empowerment, and improving lives. A strong, inclusive financial system is not just a matter of policy; it is a foundation for a just, equitable, and strong economy.

## 5.1.2 The Evolution of Planning in India

India, after gaining independence in 1947, faced numerous socio-economic challenges, poverty, illiteracy, poor infrastructure, inequality, and widespread unemployment. At that time, the Indian leadership believed that a planned approach to development was essential to uplift millions of people from poverty and build a strong, self-reliant economy. Inspired by the socialist model, India adopted a mixed economy, where both the public and private sectors coexisted, but with the state playing a dominant role in planning and directing economic activities. To execute this vision, the Planning Commission was set up in 1950 by a resolution of the Government of India. The commission was responsible for formulating Five-Year Plans, which laid out the country's developmental goals, investment priorities, and policy strategies. For decades, these plans guided the direction of India's economy, focusing on areas such as agriculture, industry, education, health, and infrastructure. Over time, India's economic landscape underwent significant changes. Liberalisation in 1991 opened the economy to global markets, led to the growth of the private sector, and reduced the government's control over economic decisions. With this shift, the Planning Commission, which was created during the era of a controlled economy, began to face growing criticism. Recognising the need for a new institution that could promote cooperative federalism, encourage evidence-based policymaking, and function more like a policy think tank than a centralised planning body, the Government of India decided to abolish the Planning Commission in 2014 and replace it with the NITI Aayog (National Institution for Transforming India) on January 1, 2015.

### 5.1.2.1 The Planning Commission

When India became independent in 1947, it faced enormous developmental challenges, poverty, unemployment, low levels of education and healthcare, and almost no industrial base. The economy was largely agrarian and backward, and the state needed to take the lead in rebuilding it. To address these issues, India adopted a planned development model, inspired by the Soviet Union and other socialist countries that had used centralised planning for economic growth. The idea was that the state would play a leading role in deciding how resources should be allocated, which sectors should be prioritised, and how development should be monitored. This gave birth to the Planning Commission in March 1950, through a government resolution. Though it was not a constitutional or statutory body, it held significant influence over national policy and development planning for more than six decades.

The Prime Minister of India served as the Chairperson of the Planning Commission, giving it high-level political backing. A Deputy Chairperson, usually an economist or



senior politician, functioned as the operational head. The Commission also had several full-time members, often drawn from academia, civil service, or economics, and part-time members, usually experts or consultants from various fields. A Member Secretary managed the day-to-day administration. This structure ensured a mix of political authority and expert knowledge, although over time it became too centralised and hierarchical in its functioning.

The core responsibility of the Planning Commission was to formulate Five-Year Plans that outlined the government's development priorities over five-year periods. These plans covered sectors like agriculture, industry, transport, health, education, and energy. The Commission assessed available resources, both domestic and foreign, and recommended how they should be allocated. It also determined how much money should be given to each state and ministry, based on their proposals and needs. Apart from planning and allocation, the Commission also monitored the implementation of projects and policies, suggested mid-course corrections, and offered advice on long-term strategies and national goals.

The Planning Commission helped lay the foundation for modern India in many ways. One of its biggest achievements was promoting self-reliance and public sector development during the early years when private capital was scarce. It played a key role in industrialising the country, especially in the second and third Five-Year Plans, which focused on setting up heavy industries and public sector undertakings. During the 1960s and 1970s, it supported agricultural reforms that led to the Green Revolution, improving food security. It also contributed to building infrastructure, including power plants, roads, and irrigation systems, and launched poverty alleviation programmes from the Sixth Plan onwards. Over time, the Planning Commission became the main principal planning and advisory body that shaped India's development agenda.

Despite its achievements, the Planning Commission gradually became outdated and inefficient, especially after the 1991 economic liberalisation. It followed a top-down approach, where decisions were made at the Centre and states were expected to follow them, leading to frequent complaints from state governments about a lack of consultation. The Commission had the power to allocate funds but was often criticised for being bureaucratic and non-transparent in its decision-making. It was also accused of creating inefficient overlaps with other ministries and failing to ensure proper monitoring and evaluation of the plans. The Five-Year Plan model became rigid, unable to respond quickly to emerging challenges in a dynamic global economy. As India moved toward a market-based and globally connected economy, the Commission's command-style planning lost relevance.

By the early 2010s, there was growing recognition that India needed a new institution that was more aligned with the needs of a modern economy. The final blow came in 2014, when Prime Minister Narendra Modi, in his Independence Day speech, announced that the Planning Commission would be scrapped. He called for a body that would encourage cooperative federalism, be more flexible and technology-driven, and act as a think tank rather than a controlling authority. This led to the formation of NITI Aayog (National Institution for Transforming India) on January 1, 2015, marking a significant shift from centralised planning to strategic policy guidance and state collaboration.

The Planning Commission served as the backbone of India's planned development from 1950 to 2014. It helped build critical sectors, guided national priorities, and laid the foundation for India's public sector and infrastructure. However, its centralised and rigid nature made it less effective in a fast-changing, liberalised economy. Although its time has passed, the Planning Commission's contribution to nation-building, poverty reduction, and economic modernisation remains undeniable. The transition to NITI Aayog reflects India's move towards a more decentralised, participatory, and innovation-driven development model, better suited for the challenges of the 21st century.

### 5.1.2.2 NITI Aayog

The National Institution for Transforming India, or NITI Aayog, is India's leading policy think tank, established by the Government of India on January 1, 2015, replacing the Planning Commission. This marked a major shift in India's economic policy framework, from centralised planning to a more flexible, participatory, and cooperative approach to development. NITI Aayog was designed to meet the evolving needs of India's liberalised and dynamic economy by promoting cooperative federalism, encouraging innovation, and facilitating evidence-based policy-making. The formation of NITI Aayog was necessitated by the changing economic environment and governance challenges in India. The government decided to dissolve the Planning Commission and replace it with a more collaborative and forward-looking institution, NITI Aayog.

NITI Aayog was designed to fulfil several important objectives:

- ◆ Promote cooperative federalism by involving states in policy-making and implementation.
- ◆ Develop long-term strategies for economic and social development.
- ◆ Provide policy inputs to the central and state governments based on data and evidence.
- ◆ Promote innovation and entrepreneurship through initiatives like Atal Innovation Mission.
- ◆ Encourage competitive federalism by ranking states on performance and encouraging peer learning.
- ◆ Bridge the knowledge gap by acting as a think tank that integrates global and local best practices.

NITI Aayog has a broad and inclusive structure that ensures representation from across the country.

- ◆ **Chairperson:** The Prime Minister of India serves as the Chairperson of NITI Aayog, reflecting the institution's importance in national governance.
- ◆ **Governing Council:** This includes the Chief Ministers of all states, Lieutenant Governors of Union Territories, and several Union Ministers. The Governing Council functions as the primary body for promoting cooperative federalism, where the Centre and states jointly formulate policies.



- ◆ **Regional Councils:** These are temporary, theme-based councils formed to address specific regional issues. They are chaired by the Prime Minister or a nominated official and include state Chief Ministers and other stakeholders.
- ◆ **Vice-Chairperson:** Appointed by the Prime Minister, the Vice-Chairperson is responsible for day-to-day leadership and supervision of NITI Aayog's work.
- ◆ **Members and CEO:** NITI Aayog includes full-time members, part-time members (from academia, industry, and civil society), and a Chief Executive Officer (CEO), usually a senior IAS officer who coordinates its operations.
- ◆ **Special Invitees:** Domain experts, subject specialists, and practitioners may be invited as needed to provide information and expertise on specific policy areas.

NITI Aayog performs a range of functions aimed at transforming India's development process. They are as follows:

- ◆ **Policy Advisory Role:** Unlike the Planning Commission, NITI Aayog does not prepare Five-Year Plans. Instead, it provides strategic and technical advice to the Centre and states on long-term development goals and sectoral policies.
- ◆ **Promoting Cooperative Federalism:** NITI Aayog serves as a platform where states and the Centre can work together, share best practices, and jointly address developmental challenges. It facilitates regular consultations, working groups, and reviews.
- ◆ **Competitive Federalism:** To encourage healthy competition among states, NITI Aayog ranks states based on performance in health, education, sustainable development, and governance. This encourages innovation and better delivery of public services.
- ◆ **Monitoring and Evaluation:** The Aayog tracks the implementation of major government schemes and monitors progress using real-time data and indicators. It has developed indices like the SDG India Index, School Education Quality Index (SEQI), and Health Index.
- ◆ **Innovation and Entrepreneurship:** Through the Atal Innovation Mission (AIM), NITI Aayog promotes innovation, especially among youth and start-ups. AIM supports Atal Tinkering Labs in schools, incubators, and innovation hubs.
- ◆ **Capacity Building and Best Practices:** NITI Aayog works on capacity building by sharing knowledge, offering training, and encouraging peer learning among states. It also conducts research, pilot projects, and policy analysis to share best practices.

Over the years, NITI Aayog has launched several impactful initiatives. The major initiatives are as follows:

- ◆ **Atal Innovation Mission (AIM):** Promotes entrepreneurship, innovation, and creativity in schools and universities.
- ◆ **Aspirational Districts Programme:** Targets the transformation of the most underdeveloped districts through data-driven governance and focused intervention.
- ◆ **SDG India Index:** Measures the progress of states and Union Territories towards achieving the Sustainable Development Goals (SDGs).
- ◆ **National Nutrition Strategy:** Aims to reduce malnutrition through awareness, interventions, and community participation.
- ◆ **Strategy for New India @75:** A vision document to guide India's development by 2022, focusing on inclusive and sustainable growth.
- ◆ **Digital Transformation:** Supports the Digital India mission by encouraging the use of technology in public services and governance.

NITI Aayog represents a fundamental shift in India's development thinking. It moves away from centralised control and embraces decentralised, participatory, and performance-based governance. Its emphasis on real-time data, measurable outcomes, and innovation makes it more relevant in today's fast-evolving world. By bringing states into the policy-making process and promoting transparency and accountability, NITI Aayog strengthens cooperative federalism. By shifting the focus from inputs and expenditure to outcomes and impact, it ensures that government initiatives lead to meaningful improvements in people's lives. Its efforts to engage with industry, civil society, and global partners also make development more inclusive and aligned with global standards.

**Table 5.1.1 Planning Commissions as NITI Aayog**

Aspect	Planning Commission	NITI Aayog
<b>Established</b>	1950	2015
<b>Type</b>	Centralised planning body	Policy think tank
<b>Planning Style</b>	Top-down approach	Bottom-up, consultative approach
<b>Role in Fund Allocation</b>	Controlled allocation of funds to states	No financial power; advisory role only
<b>Federalism</b>	Weak coordination with states	Promotes cooperative and competitive federalism
<b>Flexibility</b>	Rigid five-year plans	Real-time policy adaptation
<b>Focus Areas</b>	Economic planning and fund distribution	Strategy, innovation, performance monitoring
<b>Inclusion of States</b>	Limited participation	States are full members of the Governing Council

<b>Decision-Making</b>	Closed group of central experts	Inclusive, multi-stakeholder approach
<b>Relevant For</b>	Controlled economy	Liberalised, market-driven economy

NITI Aayog is not just a replacement for the Planning Commission, but a reflection of a new development philosophy, one that values collaboration over control, innovation over inactivity, and performance over promises. It acts as a catalyst for change, helping India navigate the complexities of 21<sup>st</sup>-century governance with data, dialogue, and direction. As India continues its journey towards becoming a \$5 trillion economy, NITI Aayog's role as a visionary policy institution will remain central in driving sustainable and inclusive growth.

## Recap

- ◆ Financial inclusion means affordable access to financial services for all
- ◆ PMJDY enabled bank accounts with zero balance and laid the JAM trinity
- ◆ Business Correspondents deliver banking in remote areas using mobile tech and micro-ATMs
- ◆ DBT ensures direct transfer of subsidies to bank accounts, reducing leakages and corruption
- ◆ SHGs and MFIs empower rural women and promote savings, credit, and entrepreneurship
- ◆ MUDRA provides collateral-free loans to micro businesses under the Shishu, Kishore, and Tarun categories
- ◆ Social security schemes like PMJJBY, PMSBY, and APY offer low-cost life and accident insurance and pensions
- ◆ Financial literacy is boosted by FLCs and campaigns like “RBI Kehta Hai”
- ◆ NSFI (2019–2024) outlines a strategy for universal financial service access, digital inclusion, and stakeholder coordination
- ◆ PMJDY brought millions into formal banking with zero-balance accounts
- ◆ SHGs and MFIs provide credit and empowerment to rural women

- ◆ MUDRA offers loans to micro businesses under Shishu, Kishore, and Tarun
- ◆ The Planning Commission used top-down plans
- ◆ NITI Aayog uses a consultative approach
- ◆ NITI Aayog promotes innovation, cooperation, and performance monitoring
- ◆ Financial services help reduce poverty and promote inclusive growth
- ◆ Trust deficit and dormant accounts remain major inclusion challenges
- ◆ Digital divide and low financial awareness hinder full participation
- ◆ India's strategy combines policy, tech, and grassroots action for inclusion

## Objective Questions

1. What is the full form of PMJDY?
2. Which model is used for delivering banking services in remote areas?
3. What type of loan does MUDRA provide?
4. What does SHG stand for?
5. Which scheme promotes financial literacy through FLCs?
6. What year was NSFI launched?
7. What is the full form of DBT?
8. What does JAM stand for in financial inclusion?
9. Who heads the NITI Aayog?
10. Which program ensures pension for informal workers?
11. What is the insurance amount under PMJJBY?

## Answers

1. Pradhan Mantri Jan Dhan Yojana
2. Business Correspondent
3. Collateral-free
4. Self-Help Group
5. RBI Kehta Hai
6. 2019
7. Direct Benefit Transfer
8. Jan Dhan - Aadhaar – Mobile
9. Prime Minister
10. Atal Pension Yojana
11. ₹2 lakh

## Assignments

1. Explain the concept of financial inclusion.
2. Critically analyse the role of Pradhan Mantri Jan Dhan Yojana (PMJDY) and the JAM trinity in transforming access to financial services and welfare delivery in India.
3. Analyse the major challenges facing India's financial inclusion strategy.
4. Trace the evolution of economic planning in India from the Planning Commission to NITI Aayog.
5. Critically assess the role and achievements of the Planning Commission in India's post-independence economic development.
6. Evaluate the role of NITI Aayog in promoting cooperative and competitive federalism in India.
7. Analyse the key objectives, structure, and functions of NITI Aayog.
8. Compare the Planning Commission and NITI Aayog and assess their relevance.

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## Suggested Reading

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## UNIT

# Goods And Service Tax

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ get an insight into the concept and structure of GST
- ◆ familiarise the structure and working of GST in India
- ◆ discuss the challenges and issues associated with GST implementation

### Prerequisites

Amit owns a small textile shop in a busy marketplace. For years, he struggled with multiple taxes, sales tax, excise duty, and service tax, each requiring different paperwork and payments. Every time a customer asked about tax rates, he found himself confused, as different products were taxed differently in various states. The process was not only complicated but also time-consuming. One day, he heard about a new tax system called GST that promised to simplify everything. It was supposed to replace multiple indirect taxes with a single tax, making it easier for businesses like his. As time passed, Amit realised that while GST had streamlined many aspects of taxation, it also had its own set of issues. Filing returns online was difficult for some, especially those who were not tech-savvy. Some products had higher tax rates than before, making them costlier for customers. There were also concerns about how GST impacted different sectors, from small traders to large industries. Tax reforms are meant to improve economic efficiency, but their success depends on how well they are designed and implemented. While GST aimed to create a unified tax system, debates continue whether it has truly achieved its goals.

## Keywords

GST, Indirect Taxes, Tax Reform, GST Rates, Compliance, Digital Taxation, Small Businesses, Economic Impact

## Discussion

### 5.2.1 Goods and Services Tax

The introduction of the Goods and Services Tax (GST) in India marked a major turning point in the country's taxation landscape. Implemented on 1<sup>st</sup> July 2017, GST was envisioned as a comprehensive indirect tax that would subsume a complex web of existing central and state taxes such as excise duty, service tax, value added tax (VAT), entry tax, luxury tax, and several other levies. Prior to GST, India's indirect tax system was highly fragmented, with states following different tax rates and laws. This lack of uniformity created significant challenges for businesses operating across state boundaries and hindered the smooth movement of goods and services. Moreover, the earlier system resulted in a cascading effect of taxes, where tax was levied on tax at multiple stages of production and distribution, inflating prices and reducing overall economic efficiency.

GST was introduced to address these structural weaknesses by creating a unified tax framework applicable across the country. The reform aimed to enhance transparency, promote a seamless national market, and enable the uninterrupted flow of goods and services. A key feature of GST was the introduction of the input tax credit mechanism, which sought to eliminate the tax-on-tax burden by allowing credit for taxes paid at earlier stages of the supply chain. Improving the ease of doing business, attracting investment, and encouraging the formalisation of economic activity were among the central motivations behind the reform. GST also represented a significant step towards cooperative federalism, as both the Centre and the States were required to jointly design, implement, and administer the tax system through institutional mechanisms such as the GST Council.

While GST was conceived as a reform rooted in simplification and efficiency, its implementation has involved continuous adjustment and policy refinement. The transition to a nationwide digital tax system required changes in administrative practices, technological infrastructure, and taxpayer behaviour. Over time, the GST framework has evolved in response to practical challenges related to compliance, revenue sharing, and system design. Despite these transitional difficulties, GST remains one of the most ambitious and far-reaching economic reforms undertaken in independent India.

The Goods and Services Tax, commonly referred to as a Value Added Tax (VAT) based system in many countries, is an indirect tax designed to streamline the taxation of goods and services by taxing value addition at each stage. Developed as an alternative to traditional indirect tax regimes characterised by cascading, weak compliance, and

fragmentation, GST has gradually emerged as a global standard for indirect taxation. Countries across the world have adopted and customised GST or VAT systems to suit their economic conditions, institutional structures, and governance frameworks.

### 5.2.1.1 Origin of GST in the World

The concept of the Goods and Services Tax (GST) originated in France in 1954, making it the first country in the world to introduce this innovative form of indirect taxation. France implemented GST in the form of a Value Added Tax (VAT) to address the limitations of its existing turnover tax system, which was inefficient and resulted in multiple layers of taxation as goods moved through different stages of production and distribution. The VAT system introduced the mechanism of input tax credit, allowing businesses to claim credit for taxes paid on inputs and thereby eliminating the cascading effect of taxation.

The success of the French VAT model encouraged many other countries to adopt similar systems in the subsequent decades. Today, more than 160 countries, including major economies such as Canada, Australia, New Zealand, the United Kingdom, and the member states of the European Union, have implemented some form of GST or VAT. In these countries, GST was not merely a tax reform but a broader instrument for modernising the tax system, improving administrative efficiency, and strengthening revenue mobilisation. However, the structure and functioning of GST have varied considerably across countries, reflecting differences in political arrangements, levels of economic development, and administrative capacities.

### 5.2.1.2 Different Models of GST

As countries implemented GST, they adapted the framework to match their federal or unitary structure, leading to the development of two main models, viz the Single GST Model and the Dual GST Model.

1. **Single GST Model:** This model is adopted by countries with a unitary form of government, where the central authority controls both legislation and administration of GST. A prime example is New Zealand, which has one of the most simplified and efficient GST systems in the world. In this model:
  - ◆ Only the central government levies GST on all goods and services.
  - ◆ There is one uniform rate, and the revenue goes directly to the central treasury.
  - ◆ Businesses benefit from a simple compliance structure, fewer disputes, and reduced paperwork.

Because of its simplicity, the single GST model results in lower administrative costs, easy enforcement, and better compliance. However, it works best in countries where sub-national governments (like states or provinces) do not have independent taxation powers.

- 2. Dual GST Model:** Countries with a federal structure, where powers are divided between central and regional governments, tend to adopt the dual GST model. This is the model followed by countries like Canada and India.

In a dual GST model:

- ◆ Both the Central and State (or provincial) governments levy GST simultaneously on a common tax base.
- ◆ The central component is often called Central GST (CGST), while the state component is State GST (SGST).
- ◆ In the case of interstate transactions, an Integrated GST (IGST) may be levied by the central authority, which is then shared with the relevant state.

The dual model aims to respect the autonomy of state governments while still maintaining the advantages of a common national market. However, it comes with administrative challenges, such as coordination between different levels of government, revenue sharing, and dispute resolution.

The global evolution of GST reflects a consistent effort by countries to simplify their tax systems, improve compliance, and modernise economic governance. Whether it is the single model used in countries like New Zealand or the dual model followed in federations like Canada and India, the core idea remains the same, to make taxation more efficient, transparent, and business-friendly.

### 5.2.1.3 The Introduction of GST in India

The Goods and Services Tax (GST) in India was introduced with the objective of reforming the country's complex and often inconsistent system of indirect taxation. The decision to implement GST was the result of prolonged policy deliberations, economic necessity, and lessons drawn from international experience. Its introduction on 1st July 2017 marked a significant milestone in India's fiscal policy framework. The central objective was to replace a multiplicity of central and state-level indirect taxes with a single, unified tax system applicable across the country, thereby promoting transparency, simplicity, and economic efficiency.

Prior to the introduction of GST, India's indirect tax regime was highly fragmented and burdened with structural complexities. Taxes were levied at different stages of the supply chain, and these levies varied not only between the Centre and the States but also across individual states. Major indirect taxes included central excise duty, levied by the Union Government on the manufacture of goods; service tax on the provision of services; state-level value added tax (VAT) on the sale of goods; and entry tax and octroi collected by states or local bodies on the movement of goods. In addition, several state-specific levies such as luxury tax, entertainment tax, and purchase tax were imposed on selected goods and services.

Each of these taxes operated under distinct rates, rules, and compliance mechanisms, resulting in an inefficient and non-transparent tax system. Businesses were required to maintain separate accounts, file multiple returns, and interact with several tax authorities, which increased compliance costs and administrative burden. This



fragmented structure hindered operational efficiency and posed significant challenges for businesses, particularly those operating across multiple states.

One of the most serious shortcomings of the pre-GST regime was the cascading effect of taxation, commonly described as “tax on tax”. For instance, when a manufacturer sold a product to a wholesaler, excise duty was levied at the manufacturing stage. Subsequently, when the same product was sold to a retailer, Value Added Tax (VAT) was imposed not only on the base price but also on the excise duty component, thereby increasing the effective tax burden. This system raised the cost of goods and services and imposed hidden inefficiencies on both consumers and producers. In addition, tax barriers across state boundaries significantly hindered the smooth flow of interstate trade. Goods transport vehicles were often required to stop at state borders for inspections, documentation, and tax verification, leading to delays, higher logistics costs, and fragmented supply chains. The absence of uniform tax rates and procedures across states further discouraged investment and made it difficult for firms to operate seamlessly at the national level. Against this background, India adopted the Goods and Services Tax with the objective of modernising and rationalising its indirect tax structure. The pre-GST system had become outdated and created avoidable obstacles to ease of doing business and economic integration.

GST was designed to address the structural weaknesses of the pre-GST indirect tax regime through a set of clearly defined objectives.

- ◆ **Simplification of the Tax Structure:** One of the primary objectives of GST was to rationalise India’s complex indirect tax system by subsuming multiple central and state taxes into a unified framework applicable across goods and services. By replacing numerous levies administered by different authorities, GST sought to standardise tax rules and procedures nationwide, thereby improving transparency and reducing institutional fragmentation. While the tax structure has been simplified, compliance has increasingly shifted towards digital standardisation rather than procedural reduction.
- ◆ **Elimination of the Cascading Effect:** The pre-GST system imposed tax at multiple stages without allowing full credit for taxes already paid, leading to cascading and inflated prices. GST introduced the Input Tax Credit (ITC) mechanism to ensure that tax is levied only on value addition at each stage of the supply chain. Although ITC has significantly reduced tax cascading, its availability has become increasingly conditional on accurate reporting, supplier compliance, and system-based verification.
- ◆ **Creation of a Unified National Market:** By harmonising tax rates and procedures across states, GST aimed to remove fiscal barriers to interstate trade and facilitate the free movement of goods and services. The elimination of check-posts and entry taxes has improved logistics efficiency and market integration. However, the functioning of a unified national market now depends as much on digital compliance and data consistency as on physical mobility.
- ◆ **Improved Tax Compliance and Formalisation:** GST is built on a technology-driven infrastructure that mandates electronic registration, invoicing, return filing, and tax payment. This digital architecture has expanded the tax

base by encouraging the formalisation of business activities, particularly through the input tax credit chain. At the same time, increased reliance on automated systems has heightened the importance of compliance accuracy and documentation.

- ◆ **Enhancement of Economic Efficiency:** By consolidating multiple taxes, reducing cascading, and improving supply chain efficiency, GST was expected to enhance productivity and competitiveness in the economy. While these efficiency gains have materialised in several sectors, they coexist with adjustment costs, especially for small and medium enterprises facing compliance rigidity and working capital constraints. For governments, GST has strengthened revenue monitoring and forecasting through real-time data availability.

Overall, GST was adopted in India to unify the indirect tax system, promote economic integration, and enhance transparency in taxation. Although its implementation involved transition costs and continuing adjustments, GST represents a structural reform aimed at creating a coherent, technology-driven, and value-based tax regime capable of supporting long-term economic growth.

#### 5.2.1.4 Structure and Working of GST in India

The Goods and Services Tax in India represents not merely a change in the method of collecting indirect taxes, but a structural reform that has redefined the fiscal relationship between the Centre and the States. Unlike countries with a unitary form of government, where a single authority levies and administers GST, India's federal structure required a system that could accommodate the revenue interests and fiscal autonomy of both levels of government. Accordingly, India adopted a dual GST model that reflects the constitutional division of taxing powers.

Under the dual GST framework, both the Central Government and the State Governments are empowered to levy and collect tax on a common base, namely the supply of goods and services. This arrangement ensures that revenue is shared between the Centre and the States without encroachment on each other's fiscal domains, while simultaneously preserving the integrity of a unified national market.

- ◆ **Central Goods and Services Tax (CGST):** CGST is levied by the Central Government on intra-state supplies of goods and services. For example, when a manufacturer in Karnataka sells goods to a retailer within the same state, CGST is charged as part of the transaction. The revenue collected under CGST accrues to the central exchequer. The applicable rates are uniform across the country and are notified by the Union Government based on the recommendations of the GST Council.
- ◆ **State Goods and Services Tax (SGST):** SGST is levied by the respective State Government on the same intra-state supply. Thus, in an intra-state transaction, both CGST and SGST are applied concurrently on the same tax base. For instance, if the applicable GST rate is 18 per cent, 9 per cent is collected as CGST and 9 per cent as SGST. Revenue from SGST is retained by the State Government and used to finance state-level public expenditure such as infrastructure development and social welfare programmes.

- ◆ **Integrated Goods and Services Tax (IGST):** IGST is levied on inter-state supplies of goods and services, that is, transactions where the supplier and the recipient are located in different states or union territories. In such cases, the tax is collected by the Central Government, which subsequently apportions the appropriate share to the destination state based on consumption. This mechanism ensures continuity of input tax credit across state boundaries and prevents double taxation.

Exports and supplies to Special Economic Zones are treated as zero-rated supplies under the IGST framework. While they fall within the scope of IGST law, no tax burden is ultimately imposed on exports, thereby preserving international competitiveness and adhering to the principle that taxes should not be exported.

The GST system in India is based on the destination principle of taxation, which implies that tax revenue accrues to the state where goods or services are consumed rather than where they are produced. This principle strengthens consumption-based revenue allocation and has become central to the functioning of India's cooperative federal fiscal framework.

One of the most debated features of India's GST system is its multi-tiered rate structure, which was originally designed to accommodate the socio-economic diversity of the country. While many nations adopted a single GST rate, India implemented multiple rate slabs to balance revenue requirements with affordability for different sections of the population.

- ◆ **0% Tax Slab:** This zero-rated category includes essential items of daily use such as fresh fruits and vegetables, milk, curd, eggs, salt, and unbranded cereals. These are largely unprocessed and unbranded goods consumed by a significant proportion of the population, particularly lower-income households. The objective of this slab was to ensure that basic nutrition and essential consumption remained affordable.
- ◆ **5% Tax Slab:** This represents the lowest positive GST rate and applies to necessary goods that are not strictly essential but still require affordability, such as certain packaged food items, low-value footwear, and life-saving drugs. The rate was intended to strike a balance between social welfare considerations and revenue mobilisation.
- ◆ **12% and 18% Tax Slabs:** These slabs covered the bulk of goods and services under GST. Items such as processed foods, personal care products, mobile phones, and restaurant services were taxed within this range. The 18 per cent slab functioned as the standard rate, applied to a wide spectrum of goods and services including consumer durables, industrial inputs, and telecom services, and served as a major source of GST revenue.
- ◆ **28% Tax Slab:** This was the highest standard GST slab and was imposed on luxury and sin goods such as air conditioners, automobiles, premium motorcycles, tobacco products, and aerated drinks. In addition to the GST rate, several of these goods attracted a compensation cess. The objective was to discourage consumption of harmful or luxury goods while ensuring higher revenue contribution from affluent consumers..

While the multi-rate structure was guided by equity and inclusiveness, its operation over time resulted in classification disputes, interpretational ambiguities, and compliance challenges, particularly for small traders and businesses. The GST Council, the apex decision-making body comprising representatives of the Centre and the States, periodically revised tax rates in response to industry feedback and revenue considerations. Although the dual GST framework successfully balanced the fiscal powers of the Centre and the States and promoted a unified national market, the presence of multiple standard rates added to administrative and enforcement complexity.

While the multi-tiered rate structure defined India's GST framework during its initial years, experience revealed that multiple standard rates increased compliance costs and administrative complexity. Recognising these limitations, the GST Council undertook a comprehensive review of the rate structure as part of the Next-Generation GST reforms approved in 2025, leading to a decisive move towards simplification with effect from 22 September 2025.

Under the reformed framework, the GST rate structure was rationalised into a simplified two-slab system, comprising a lower rate of 5 per cent and a standard rate of 18 per cent. The earlier intermediate and higher standard slabs were phased out to reduce ambiguity and improve ease of compliance. Goods and services of mass consumption and social importance were largely aligned with the lower rate, while the standard rate continues to apply to the majority of goods and services.

In addition, certain goods considered harmful or luxury in nature, such as tobacco products, pan masala, aerated drinks, and select high-end luxury items, are subject to a separate higher rate, along with applicable cess. This ensures that revenue objectives and public health considerations are addressed within an otherwise simplified rate structure.

The transition from a multi-tiered system to a two-rate framework reflects India's shift from experimentation to consolidation in indirect tax policy. While the original rate design was guided primarily by equity considerations, the post-2025 reforms signify a strategic emphasis on simplification, predictability, and administrative efficiency, without abandoning the redistributive objectives of the GST regime.

### 5.2.1.5 Benefits of GST

The Goods and Services Tax has brought about several structural and institutional benefits to India's indirect tax system. While some of these benefits emerged gradually during the initial years of implementation, others have become more evident as the system has matured and undergone subsequent reforms.

- 1. Creation of a Unified National Market (One Nation, One Tax):** One of the most significant achievements of GST has been the integration of India's fragmented domestic market. Prior to GST, multiple central and state taxes were levied on the same goods and services, often at varying rates, leading to tax arbitrage and market segmentation. By subsuming a wide range of indirect taxes into a single framework, GST reduced inter-state fiscal barriers and promoted the idea of "One Nation, One Market". Although

rate differentiation and certain exclusions remain, recent rate rationalisation measures have strengthened market uniformity and transparency.

- 2. Elimination of the Cascading Effect of Taxes:** The introduction of the input tax credit (ITC) mechanism under GST has substantially reduced the cascading effect of taxation that characterised the pre-GST regime. By allowing credit for taxes paid on inputs and intermediate goods, GST ensures that tax is levied only on value addition at each stage of production and distribution. This has lowered the overall tax burden, improved price transparency, and enhanced efficiency in production and supply chains, even though ITC eligibility has become increasingly compliance-dependent.
- 3. Improvement in Ease of Doing Business:** GST has simplified the direct tax framework for businesses operating across multiple states by replacing diverse tax laws and procedures with a standardised system. The removal of border check-posts and harmonisation of tax rules have reduced logistics costs and transit delays. However, while procedural uniformity has improved, compliance under GST has become more data-intensive, requiring greater accuracy and digital capability, particularly from small and medium enterprises.
- 4. Technology-Driven Tax Administration:** GST represents a decisive shift towards a digital mode of tax governance. The GST Network (GSTN) enables electronic registration, invoicing, return filing, payment, and refund processing. Over time, this technology-driven architecture has enhanced transparency, reduced manual intervention, and strengthened audit and enforcement capabilities. At the same time, increased reliance on automated systems has raised the importance of accurate reporting and timely compliance.
- 5. Formalisation of the Economy:** GST has played a key role in encouraging the formalisation of business activity. Mandatory registration beyond specified turnover thresholds and the ITC chain have incentivised firms to operate within the formal tax system. This has improved access to institutional credit, enhanced record-keeping, and widened the tax base. While the adjustment process posed challenges for informal enterprises, formalisation has strengthened the long-term resilience of the economy.
- 6. Improved Revenue Buoyancy and Fiscal Transparency:** Although GST faced revenue uncertainties during its initial years, collections have become more stable and buoyant over time due to improved compliance, expansion of the tax base, and enhanced digital monitoring. Real-time transaction data has strengthened revenue forecasting and fiscal planning for both the Centre and the States. Post-2025 reforms, including rate rationalisation and compliance consolidation, are expected to further reinforce GST as a reliable source of public revenue.

Overall, GST has delivered substantial structural benefits by unifying markets, reducing tax distortions, and modernising tax administration. While challenges related to compliance intensity and adjustment costs persist, especially for MSMEs, the evolving GST framework reflects a balance between efficiency, equity, and revenue sustainability.

### 5.2.1.6 Issues and Challenges of GST

While the Goods and Services Tax was introduced to simplify India's indirect tax system, its implementation has revealed a set of evolving challenges. These challenges have not remained static over time; rather, they have shifted in nature as the GST framework has matured. In the initial years, concerns were largely related to structural complexity and system readiness. In the post-2025 phase, the emphasis has moved towards compliance intensity, administrative consolidation, and federal coordination.

- 1. Policy Uncertainty and Frequent Amendments (Initial Phase):** In the years following its introduction, GST was characterised by frequent changes in tax rates, rules, and procedures. The GST Council revised rates and compliance norms multiple times in response to revenue considerations, industry feedback, and economic conditions. While such flexibility was necessary during the transition phase, the frequency of changes created uncertainty for businesses, particularly small enterprises with limited capacity to adapt quickly. Over time, this unpredictability affected compliance behaviour and business planning.
- 2. Complexity of Rate Structure and Classification Disputes (Pre-2025):** The earlier multi-tier GST rate structure, comprising several standard slabs and cesses, posed significant classification challenges. Businesses often faced ambiguity in determining applicable rates, leading to disputes, litigation, and compliance errors. Although this complexity was partly driven by equity considerations, it increased administrative costs and enforcement difficulties. The post-2025 shift towards a simplified two-slab structure represents an institutional response to these challenges.
- 3. High Compliance Burden for Small and Medium Enterprises:** Despite procedural standardisation, GST compliance has remained demanding, particularly for micro, small, and medium enterprises. The requirement to file multiple returns, reconcile invoices, and ensure supplier-level compliance has increased reliance on professional services and accounting software. In the current phase, the challenge lies less in the number of returns and more in the accuracy, timeliness, and system-based validation of filings, which can strain the resources of smaller firms.
- 4. Digital Compliance and System Rigidity:** The GST Network (GSTN) has evolved into a stable and integrated digital platform. However, as automation has increased, the system has become more rule-driven and less flexible. Errors in data entry, mismatches in invoices, or delays by suppliers can lead to denial of input tax credit, blocking of returns, or automated notices. For taxpayers with limited digital literacy, especially in rural and semi-urban areas, this rigidity poses a significant compliance challenge.
- 5. Refund Processing and Working Capital Constraints:** Delays in GST refunds, particularly for exporters and businesses with inverted duty structures, have been a persistent concern. Although refund mechanisms have become faster and more automated over time, they are increasingly linked to risk profiling and data matching. Refunds may be withheld or

delayed in cases of discrepancies, affecting working capital and financial planning for businesses dependent on timely cash flows.

6. **Centre–State Fiscal Coordination and Revenue Sharing:** GST altered the fiscal autonomy of states by subsuming several state-level taxes. While a compensation mechanism was provided during the initial years, delays and disputes, especially during periods of economic stress such as the COVID-19 pandemic, highlighted tensions in Centre–State fiscal relations. In the post-compensation period, ensuring predictable revenue flows and maintaining trust within the cooperative federal framework remain key challenges.
7. **Impact on the Informal Sector and Adjustment Costs:** GST’s digital-first and compliance-oriented design posed adjustment challenges for India’s large informal sector. Many small and unregistered enterprises faced difficulties due to lack of digital infrastructure, accounting systems, and compliance capacity. While GST has contributed to formalisation in the long run, the short-term adjustment costs included business exits, employment disruptions, and income volatility, particularly in rural and semi-urban economies.

Overall, the challenges of GST reflect the complexity of implementing a comprehensive indirect tax reform in a large and diverse federal economy. As GST moves into a phase of consolidation, the central challenge lies in balancing revenue protection, compliance discipline, and ease of doing business, especially for MSMEs and informal enterprises. Continuous policy calibration, taxpayer support, and institutional coordination are essential for addressing these concerns and realising the full potential of GST.

The Goods and Services Tax was introduced in India with the objective of transforming a complex and fragmented indirect tax system into a unified, transparent, and efficient fiscal framework. At a structural level, GST has brought about significant changes by eliminating the cascading effect of taxes, promoting formalisation of economic activity, and establishing a technology-driven tax administration. These reforms represent a decisive shift in India’s approach to indirect taxation and fiscal federalism.

At the same time, the experience of implementation highlights that GST is not merely a legislative reform but an ongoing process of institutional adjustment. In its initial years, the system faced challenges related to technological readiness, administrative capacity, frequent policy changes, and coordination between the Centre and the States. Small and medium enterprises, in particular, encountered adjustment costs arising from compliance complexity and digital transition. These issues underscored the gap between policy design and ground-level execution.

Over time, and especially with the Next-Generation GST reforms introduced in 2025, the GST framework has moved into a phase of consolidation and rationalisation. The simplification of the rate structure, strengthening of digital compliance mechanisms, and improved revenue monitoring reflect policy learning based on implementation experience. GST has thus evolved from an experimental reform into a more stable institutional system, though challenges related to compliance intensity, system rigidity, and Centre–State fiscal coordination continue to demand attention.

The long-term potential of GST remains substantial. Its digital architecture enhances transparency, reduces scope for tax evasion, and supports the expansion of the tax base. If complemented by stable policies, effective taxpayer support, capacity building among tax administrators, and cooperative federal governance, GST can contribute significantly to improving India's tax-to-GDP ratio and fiscal sustainability.

In conclusion, GST should be viewed neither as a flawless success nor as a failed reform, but as a maturing fiscal institution. Its effectiveness depends not only on structural design but also on adaptive governance, administrative capability, and responsiveness to stakeholder concerns. With continuous refinement and inclusive policy implementation, GST has the potential to serve as a cornerstone of India's economic modernisation and inclusive growth strategy.

## Recap

- ◆ GST was implemented in India on 1st July 2017 as a comprehensive indirect tax reform
- ◆ GST replaced multiple central and state indirect taxes with a unified tax framework
- ◆ The pre-GST system was fragmented and caused cascading of taxes
- ◆ GST introduced input tax credit to eliminate tax-on-tax
- ◆ GST aimed to create a unified national market and improve ease of doing business
- ◆ GST is a technology-driven tax system based on digital compliance
- ◆ GST represents cooperative federalism through joint Centre–State administration
- ◆ GST follows a dual model with CGST, SGST, and IGST
- ◆ GST is destination-based and tax accrues to the place of consumption
- ◆ GST initially followed a multi-tier rate structure based on equity considerations
- ◆ Multiple tax slabs led to classification disputes and compliance complexity
- ◆ In 2025, GST rates were rationalised into a simplified two-slab structure
- ◆ GST has improved formalisation, transparency, and revenue monitoring
- ◆ GST compliance remains intensive, especially for MSMEs and informal enterprises
- ◆ GST has evolved from experimentation to consolidation as a fiscal institution

## Objective Questions

1. What does GST stand for?
2. Which country introduced GST first?
3. What type of GST applies to interstate transactions?
4. What is the full form of CGST?
5. When was GST implemented in India?
6. What tax replaced service tax and VAT?
7. What is GSTN?
8. What type of GST applies to intra-state sales?
9. What is the mechanism to avoid tax-on-tax?
10. What kind of tax is GST?
11. What is the full form of SGST?
12. What portal is used for GST compliance?

## Answers

1. Goods and Services Tax
2. France
3. IGST
4. Central Goods and Services Tax
5. 2017
6. GST
7. Goods and Services Tax Network
8. CGST and SGST

9. Input Tax Credit
10. Indirect
11. State Goods and Services Tax
12. GSTN

## Assignments

1. Analyse the structure and working of GST in India.
2. Examine the reasons for introducing GST in India.
3. Explain how GST eliminated the cascading effect of taxation.
4. Examine the benefits of GST for the Indian economy.
5. Critically assess GST as a maturing fiscal institution in India.
6. Discuss the evolution of GST rate structure in India.

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## UNIT

# Economic Impact Of Covid-19

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ understand the economic impacts of the COVID-19 pandemic
- ◆ discuss how different sectors of the economy were affected by the COVID-19 pandemic
- ◆ know government responses, including fiscal and monetary policies

### Prerequisites

When the world first heard about a new virus spreading in early 2020, few could have predicted how drastically it would change lives. Streets once busy with activity became empty, businesses shut down, and millions of people were confined to their homes. For many, this was not just a health crisis but also a financial disaster. Small shop owners struggled without customers, daily wage workers lost their income overnight, and even large corporations faced uncertainty.

Raj, a cab driver in a metropolitan city, saw his earnings vanish within days as lockdowns were imposed. With no passengers and rising expenses, he found himself dipping into his savings, which were never meant to last for months. At the same time, companies introduced remote work policies, transforming the way businesses operated. While some industries, like e-commerce and technology, grew rapidly, others, such as tourism, hospitality, and manufacturing, suffered severe losses.

Governments around the world stepped in with financial relief measures, direct cash transfers, and loan moratoriums to support struggling businesses and individuals. Central banks lowered interest rates, and economic stimulus packages

were announced to revive demand. But the recovery was uneven; some countries bounced back quickly, while others took years to regain stability. The pandemic highlighted both the strengths and weaknesses of global and national economies.

## Keywords

COVID-19, Economic Crisis, Lockdown, Fiscal Policy, Monetary Policy, Unemployment, Supply Chain Disruptions, Digital Economy, Economic Recovery, Government Stimulus

## Discussion

### 5.3.1 COVID-19

The COVID-19 pandemic has been one of the most severe global health and economic crises in recent history. What began as a local outbreak in Wuhan, China, in December 2019, quickly spread across the world, causing widespread illness, death, and unfamiliar disruptions to daily life. Countries scrambled to protect public health, often resorting to lockdowns and travel bans. These necessary steps, while crucial for saving lives, brought economic activities to a standstill, leading to what many economists describe as the worst global recession since the Great Depression of the 1930s.

India, like many other nations, faced a double shock, both a public health crisis and a sharp economic downturn. The Indian government had to act swiftly, not only to control the spread of the virus but also to manage the deep economic pain felt across sectors, especially among the poor, informal workers, and small businesses. India reported its first confirmed case of COVID-19 on January 30, 2020. The situation escalated rapidly, and by mid-2020, India had one of the highest numbers of COVID-19 cases in the world. To contain the spread, the Government of India announced a nationwide lockdown starting March 25, 2020, which became one of the most extensive lockdowns globally. This lockdown, while aimed at stopping the virus, brought most economic activities to a halt. Factories were shut, transport stopped, and markets closed. Migrant workers, who form the backbone of urban labour, lost jobs overnight, and many were forced to return to their villages, often on foot due to lack of transport. While the lockdown was necessary to strengthen the public health infrastructure, including building testing facilities, quarantine centres, and improving hospital preparedness, it also highlighted the deep vulnerabilities in India's economic structure.

### 5.3.1.1 Economic Consequences of the COVID-19 Pandemic in India

The COVID-19 pandemic triggered an economic crisis of unprecedented proportions across the world. For India, the shock came at a time when the economy was already struggling with slow growth, high unemployment, weak private investment, and rising stress in the financial sector. The nationwide lockdown imposed to contain the virus, although necessary from a public health point of view, came with huge economic costs. The major economic issues that impacted were as follows:

- 1. Sharp Contraction in GDP and Economic Activity:** India's economy suffered a historic collapse in output during the initial months of the pandemic. In the April–June quarter of 2020 (Q1), the country's GDP contracted by 23.9%, marking the largest quarterly decline ever recorded in the Indian economy. This data, published by the National Statistical Office (NSO), highlighted the severe blow caused by the nationwide lockdown on both production and consumption. Economic activity virtually came to a halt as factories, offices, transportation, and markets were shut down. Even sectors like construction and real estate, usually strong in times of crisis, were paralysed due to labour shortages and supply bottlenecks.
- 2. Spike in Unemployment and Job Losses:** The most visible impact of the lockdown was the massive loss of jobs across the country, particularly in the informal sector and among daily wage earners. According to the Centre for Monitoring Indian Economy (CMIE), the national unemployment rate rose to 23.5% in April 2020, with urban unemployment peaking at 29.2%. The CMIE estimated that nearly 122 million people lost their jobs in April alone, of which 91 million were small traders and casual labourers. These numbers underline the scale of the human and economic distress caused by the abrupt stop in economic activity. Although some workers regained employment as the lockdown was gradually lifted, overall labour market recovery remained slow and uneven. Informal workers and migrant labourers, in particular, continued to face uncertainty, with many unable to return to cities or find gainful employment in their villages.
- 3. Collapse in Consumption Demand:** Private consumption, which typically contributes about 60% to India's GDP, witnessed a dramatic fall during the pandemic. With incomes declining and mobility restricted, people postponed or cancelled non-essential spending. Data from the NSO showed that Private Final Consumption Expenditure (PFCE) declined by 26.7% in Q1 FY2020-21. Sectors dependent on discretionary spending, such as automobiles, consumer electronics, restaurants, and travel, experienced record-low sales. For instance, according to the Society of Indian Automobile Manufacturers (SIAM), passenger vehicle sales dropped by 78% in April 2020 compared to the previous year. Google Mobility Reports also indicated a 90% fall in footfall at retail, recreation, and workplace locations during the peak lockdown period. These trends reflect a deep and sustained shock to consumer confidence and demand, which persisted long after lockdown restrictions were eased.

- 4. Disruptions to Supply Chains and Industrial Production:** Alongside the demand shock, India also experienced widespread disruptions in supply chains due to restrictions on movement, closure of factories, and unavailability of labour. The sudden return of an estimated 50–60 million migrant workers to their home villages, combined with transport constraints, severely disrupted both production and distribution networks. This was particularly evident in the industrial and logistics sectors. Cargo handling at major Indian ports declined by 20% year-on-year in March and April 2020, with key segments like petroleum, thermal coal, and containerised cargo being heavily affected. Similarly, railway freight, a key indicator of goods movement, fell by over 35% in April 2020. These, reported by the Ministry of Railways and cited in industry sources like Business Standard, emphasise the extent to which the supply-side of the economy was immobilised.
- 5. Impact on MSME Sector:** Micro, Small, and Medium Enterprises (MSMEs), which form the backbone of India's industrial landscape, were among the hardest hit. According to the Economic Survey 2019–20, MSMEs contribute approximately 30% to India's GDP, employ over 110 million workers, and account for nearly half of total exports. However, due to their limited cash reserves and restricted access to formal finance, many MSMEs could not survive the extended lockdown. A survey conducted by the All-India Manufacturers' Organisation (AIMO) in June 2020 found that 35% of MSMEs and 43% of self-employed workers were planning to shut down permanently due to a lack of business and liquidity. Many micro-enterprises, particularly in sectors like textiles, food services, and repair services, suffered irrevocable losses. The closure of these units not only affected the entrepreneurs but also created ripple effects in the job market.
- 6. Migrant and Informal Workers:** India's informal sector, which includes self-employed individuals, contract labourers, street vendors, and daily wage workers, employs nearly 90% of the workforce. In 2017–18, out of a total workforce of 465 million, about 422 million were engaged in informal work, as per Mehrotra and Parida (2019). The lockdown had a destructive impact on this segment. According to a survey by Azim Premji University, 80% of urban informal workers and 57% of rural informal workers lost their jobs during the lockdown. Moreover, 77% of households reported cutting down food consumption, indicating a severe income shock. With businesses closed and no formal contracts to guarantee pay, informal workers found themselves without income, savings, or social protection. Perhaps the most tragic image of the pandemic was that of migrant workers walking hundreds of kilometres home in the absence of transport, jobs, or support in urban areas. This reverse migration also placed pressure on rural economies, where job opportunities are limited and wages are lower.
- 7. Financial Sector Fragility and Credit Constraints:** Even before COVID-19, India's financial sector was struggling with the Twin Balance Sheet problem, stressed corporate borrowers and undercapitalised banks. The situation worsened as the pandemic hit. Banks became risk-averse, lending declined sharply, and credit spreads widened. Data from the Reserve Bank of India (RBI) showed that non-food credit growth fell to just 6.1% in FY2020-21, compared to 14.4% in the previous year. This was the lowest growth in bank

credit in six decades. Liquidity injection measures by the RBI had a limited impact due to low credit demand and the banking sector's unwillingness to lend. Moody's Investors Service downgraded the outlook for India's banking system to "negative", citing rising asset quality concerns. Non-banking financial companies (NBFCs), especially microfinance institutions (MFIs), faced repayment delays, defaults, and serious solvency risks, threatening the fragile credit chain that supports rural and small borrowers.

- 8. Impact on Agriculture:** While most sectors experienced negative growth, agriculture remained relatively resilient. The agriculture sector grew by 4% in FY2019-20, aided by a good monsoon and increased government procurement. According to the National Statistical Office (NSO), it was the only sector to register positive growth in Q1 FY2020-21. However, farmers still faced challenges. The initial lockdown led to disruptions in harvesting, mandi closures, and transport hurdles. A survey by Azim Premji University found that 37% of farmers could not harvest crops, 37% sold at lower prices, and 15% could not sell their produce at all. Although agriculture provided some relief in rural areas, weak supply chains and falling prices limited farmers' incomes. Moreover, a significant share of rural income comes from non-farm activities, which suffered heavily during the lockdown.
- 9. Impact on External Trade and Investment:** The external sector also faced the impact of the global slowdown. Merchandise exports declined sharply by 36.5% in April 2020, with sectors like textiles, gems and jewellery, and auto components hit the hardest. At the same time, global uncertainty and risk aversion led foreign investors to withdraw their funds. According to RBI data, Foreign Portfolio Investors (FPIs) pulled out \$7.1 billion from Indian equity and debt markets between February and March 2020. The stock markets responded with sharp declines. The BSE Sensex and NSE Nifty lost over 23% of their value in March 2020 alone. Sectors such as tourism, aviation, real estate, and hospitality faced massive losses, with many businesses operating at minimal capacity or shutting down entirely.

The COVID-19 pandemic has had widespread and long-lasting consequences for India's economy. It triggered an economic slowdown that affected every sector, exposed deep structural vulnerabilities, and pushed millions of people into poverty and insecurity. The hardest-hit groups were informal workers, MSMEs, and migrant labourers, those with the least protection and strength. While certain sectors like agriculture and essential services showed some strength, the overall recovery has been slow and uneven. The experience shows the urgent need for structural reforms in labour, finance, healthcare, and social protection. If anything, the pandemic has shown the importance of building a more inclusive, strong, and equitable economy, one that can withstand future shocks without causing such widespread human and economic suffering.

### 5.3.1.2 Government Initiatives to Control and Revive the Economy

The Indian government adopted a multi-pronged approach to address the twin crisis of health and economy triggered by COVID-19. These efforts can be broadly classified into (1) emergency health measures, (2) welfare and relief packages, (3) economic revival efforts, and (4) structural reforms and regulatory support. Each of these was rolled out in phases, with evolving strategies as the pandemic progressed. The measures taken by the GoI are as follows:

- 1. Strengthening Healthcare and Containment Measures :** When the first cases of COVID-19 were reported, India's public health system was significantly underprepared. With public expenditure on health at around 1.5% of GDP, one of the lowest globally (Economic Survey 2019–20), the government needed immediate intervention to scale up infrastructure. During the initial lockdown, hospitals were improved, testing labs were expanded, and quarantine centres were created across states. The Prime Minister also committed an additional ₹15,000 crore for emergency healthcare, which was aimed at improving testing, procurement of personal protective equipment (PPE), ventilators, and strengthening treatment facilities. The lockdown, although economically costly, was strategically used to 'buy time' to prepare for the rising caseloads. The health system continued to face a huge strain due to the rapid rise in cases.
- 2. Welfare Support Under Pradhan Mantri Garib Kalyan Yojana (PMGKY) :** Recognising the disproportionate impact of the lockdown on the poor and vulnerable, the government announced the ₹1.7 lakh crore Pradhan Mantri Garib Kalyan Yojana (PMGKY) on March 26, 2020.

The package included:

- ◆ Free additional 5 kg of rice/wheat and 1 kg of pulses for 800 million beneficiaries under the Public Distribution System for three months.
- ◆ Cash transfers of ₹500 per month to 200 million Jan Dhan women account holders for three months.
- ◆ Free LPG cylinders to 80 million Ujjwala scheme beneficiaries.
- ◆ An ex gratia payment of ₹1,000 for senior citizens, widows, and disabled persons.
- ◆ Advance release of ₹2,000 to 87 million farmers under PM-Kisan.

These schemes were intended to address immediate consumption needs and liquidity constraints, especially for informal workers and rural populations. According to RBI data, over ₹68,000 crore was disbursed under PMGKY by mid-2020, providing critical lifelines to households during the harshest months of the pandemic. Additionally, states were allowed to tap into the Construction Workers Welfare Fund (₹31,000 crore) and District Mineral Foundation funds to support relief work.

- 3. The Atmanirbhar Bharat Abhiyan: Economic Revival Package :** In May 2020, then finance minister Nirmala Sitharaman announced a comprehensive ₹20 lakh crore package under Atmanirbhar Bharat Abhiyan (Self-reliant India Mission). This package, estimated to be nearly 10% of India's GDP, was a mix of fiscal support, liquidity measures, and structural reforms.

Key components included:

- ◆ ₹3 lakh crore collateral-free loans for MSMEs, benefiting nearly 45 lakh units and helping them resume operations and protect jobs.
- ◆ A ₹30,000 crore Special Liquidity Scheme for NBFCs, MFIs, and Housing Finance Companies, helping maintain credit flow to the informal sector.
- ◆ ₹90,000 crore liquidity injection for Power Distribution Companies (DISCOMs) to clear dues and ensure continuous power supply.
- ◆ A ₹1 lakh crore Agri-Infrastructure Fund for building warehousing and cold storage chains.
- ◆ Free food grains and pulses for 80 crore people under the PMGK Anna Yojana, extended till November 2020.

Although this package was large in size, economists pointed out that the actual fiscal outlay was closer to 1% of GDP, with most of the amount comprising credit guarantees and liquidity schemes. Nevertheless, the aim was to revive supply chains, improve cash flow, and boost business confidence.

- 4. Measures by the Reserve Bank of India (RBI) :** The RBI took aggressive steps to maintain financial stability and support credit flow:

- ◆ Reduced the repo rate by 115 basis points between March and May 2020, bringing it down to 4%, the lowest since March 2010.
- ◆ Introduced a moratorium on loan repayments for six months (March–August 2020), giving relief to both businesses and individuals.
- ◆ Conducted Targeted Long-Term Repo Operations (TLTROs) to ensure liquidity in the banking and corporate bond markets.
- ◆ Deferred interest payments and relaxed asset classification norms to prevent a rise in NPAs.

Despite these moves, the transmission of monetary policy remained weak, mainly due to the already fragile state of India's banking sector, with public sector banks carrying high NPAs and being risk-averse. According to the ICRA data, Credit growth to industry remained muted, as shown by the non-food credit growth rate falling to 6.1% in March 2020, compared to 14.4% a year earlier.

**5. Employment and Rural Support through MGNREGA :** As millions of migrant workers returned to rural areas, the government enhanced funding under MGNREGA, the rural employment guarantee scheme. The wage rate was increased from ₹182 to



₹202 per day, and an additional ₹40,000 crore was allocated in May 2020 to generate more employment. This acted as a shield against rising rural unemployment. In fact, rural recovery showed signs of improvement in mid-2020, as reflected in rising tractor sales and fertiliser consumption, as well as improved rural labour participation rates (CMIE).

**6. Structural Reforms :** The crisis was also seen as an opportunity to push long-needed structural reforms:

- ◆ Liberalisation of agriculture through the Farm Bills aimed at improving market access for farmers.
- ◆ Opening up of strategic sectors to private investment (e.g., defence, manufacturing, coal mining).
- ◆ Simplification of labour codes to improve flexibility for employers and workers.

While these reforms may not yield immediate economic recovery, they were positioned as part of India's journey towards becoming a self-reliant economy in the long run.

The Government of India responded to the COVID-19 crisis with a mix of relief, revival, and reform. The immediate focus was on supporting the most vulnerable, ensuring liquidity for businesses, and providing a safety net for returning migrants and the informal sector. While the actual fiscal stimulus was modest compared to developed economies, the combined measures aimed to stabilise the economy and lay the foundation for the future. The crisis revealed critical gaps in India's public health and social security systems, but it also prompted decisive steps toward digitisation, rural employment, and economic reform.

## Recap

- ◆ COVID-19 caused a global economic crisis, with lockdowns halting production, trade, and employment
- ◆ India's GDP fell by 23.9% in Q1 of FY2020–21 due to the nationwide lockdown and halted activities
- ◆ Unemployment peaked at 23.5% with informal workers and daily wage earners worst affected
- ◆ MSMEs and self-employed faced severe losses due to cash crunch and business closures
- ◆ Consumption demand fell sharply, affecting sectors like retail, travel, and automobiles.

- ◆ Migrant workers returned home in large numbers due to job losses and a lack of urban support
- ◆ Agriculture remained resilient with 4% growth, but still faced market disruptions
- ◆ Exports declined, and the financial sector weakened due to low credit growth and rising NPAs
- ◆ The government introduced the PMGKY and Atmanirbhar Bharat packages to support the poor and MSMEs
- ◆ Long-term revival needs strong digital, healthcare, social protection, and economic reforms
- ◆ COVID-19 triggered a global recession and disrupted economies
- ◆ PMGKY offered food, LPG, and cash to poor households
- ◆ Atmanirbhar Bharat supported MSMEs and banks
- ◆ The financial sector saw a credit slowdown and rising NPAs

## Objective Questions

1. Which sector showed positive growth during the lockdown?
2. Which scheme provided free food and cash support during COVID-19?
3. What is the name of the ₹20 lakh crore economic package?
4. What does MSME stand for?
5. What is the full form of PMGKY?
6. In which year did COVID-19 start affecting India?
7. What index measures India's GDP growth?
8. Name any measures adopted by RBI during COVID-19 Pandemic
9. Name an organisation that records employment data in India?

## Answers

1. Agriculture
2. PMGKY
3. Atmanirbhar Bharat
4. Micro Small and Medium Enterprises
5. Pradhan Mantri Garib Kalyan Yojana
6. 2020
7. NSO
8. TLTROs, moratorium on loan repayments
9. CMIE

## Assignments

1. Analyse the economic consequences of the COVID-19 pandemic on India's economy.
2. Discuss the objectives and components of the Atmanirbhar Bharat Abhiyan in reviving the Indian economy.
3. Evaluate the role of government welfare measures under PMGKY during the COVID-19 crisis.
4. Assess the effectiveness of RBI's monetary measures during the COVID-19 pandemic.
5. Discuss the government initiatives to control and revive the economy after the COVID-19 pandemic.

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**BLOCK**

# **Kerala Economy since the Formation of the State**



# UNIT

## The Kerala Model of Development

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ comprehend the idea of the Kerala Model of Development
- ◆ identify key achievements of the Kerala Model
- ◆ describe the social indicators in Kerala
- ◆ assess the Human Development Index (HDI) of Kerala

### Prerequisites

Kerala presents a remarkable and widely admired case in India where moderate economic growth has gone hand in hand with exceptional social development. The State stands out for its near-universal literacy, highly accessible and efficient public healthcare, progressive land reforms that reduced inequality, and strong policies rooted in fairness, welfare, and dignity for all. These achievements are the result of decades of investment in human development, vibrant community participation, and governance that placed people's well-being at the centre rather than chasing purely economic targets. Kerala's experience shows that when society values education, health, equality, and democratic engagement, it can achieve social progress that rivals even economically richer regions.

In this unit, learners will come across how Kerala developed this distinctive model of human-centred growth, examining the historical reforms, community efforts, and social policies that influenced it, along with its strengths, weaknesses, and continuing challenges.

## Keywords

Kerala Model, Social Welfare, Education, Healthcare, Literacy, Social Indicators, Human Development

## Discussion

### 6.1.1 Unique Kerala Model of Development

Have you heard of the term Kerala Model of Development? This term has made the State proud as it has actually helped to put Kerala on the international map. When we compare our living standards to other states in India, we easily see that it is far better in Kerala. The unique model of development practised by the State of Kerala focused on improving social outcomes such as education, healthcare, literacy, and low infant mortality, rather than concentrating only on income generation. This approach is known as the 'Kerala Model of Development'.

Kerala has emerged as a celebrated model of social development, achieving remarkable progress in human welfare even without extensive industrialisation. Furthermore, Kerala has rejected the notion that the improvement in the standard of living of people can only be achieved after the successful, rapid and steady economic development. Kerala Model of Development, thus, can be seen as a direct challenge to economic theory that economic growth is the only way to improve the standard of living by raising per capita income.

How is this made possible? We have seen that the State government spends large amounts of the State budget for primary and secondary education, health care, immunisation, agricultural credits and housing targeted at poor citizens of the State. One of the most given reasons for the improvements in the quality of life of the poor in Kerala is attributed to the establishment of fair-price or 'ration shops' through which essential supplies were made available at subsidised rates. These shops are easily accessible as they are present in every locality and also ensure that quality supplies are provided. Universal meal schemes have also helped to improve the nutritional standards of young children and decreased their dropout rates. There is a general statement being made about Kerala's primary school education, that students go to school to get the mid-day meal rather than to get an education. Whatever criticism this scheme has faced, it has kept enrolment ratios high and also prevented drop-outs from school.

The land reform movement is regarded as a historical step towards development in Kerala's history. As part of the land reform programmes, the State government introduced a comprehensive Agricultural Workers Reform Act in the 1970s that provided permanency for labourers attached to the farms, a provident fund and old age pensions. This greatly reduced hours of work (between six and eight hours per day), scheduled breaks, tea and lunch, and a minimum wage, which is the highest in India. Over time, tenants, landless labourers, and industrial workers in Kerala came together to form a strong labour movement. With the support of democratic institutions and a

role in public decision-making, this movement became an important and positive part of Kerala's inclusive and people-centred development. Besides actively taking part in electoral politics, a large number of people have shown an interest in social movements and NGO's working in the areas of environmental protection, culture and education. Public action, along with well organised programmes, increased awareness among common people.

Various movements in Kerala, such as the Kerala Sastra Sahitya Parishad(KSSP) and other NGOs engaged in literacy promotion, environmental protection and rural development along with the deepening of democratic traditions and values within Kerala's civil society, have played a significant role. The role of social movements in Kerala's socioeconomic development needs to be emphasised in the description of the Kerala model. One of the most active social movements which organises environmental conservation, science and literacy popularisation campaigns is the KSSP, which may be loosely translated into English as Kerala Scientific Literacy Society. Armed with a campaign theme of 'Science for Social Revolution', the KSSP urges the government to adopt a rational approach and adapt science and technology for development. The measure of success the KSSP has had in influencing development policies to follow an environmentally sound development path is borne out by its ability to stop or modify numerous ecologically controversial industrial and energy projects.

Education and health, and their wide accessibility, have been the twin pillars of the 'Kerala Model'. According to the HDI data for 2022, Kerala has an HDI score of 0.758, placing it second among Indian states, just after Goa (0.760), as a result of the improvements the State has made in the areas of sanitation, health, education and reduction of poverty. The social safety net provisioning to the most vulnerable sections of society has strengthened the egalitarian capabilities of Kerala's development. The entire model of Kerala development became successful because of meaningful land reforms; 'food for all' schemes through fair-price shops and meal programmes for school children, infants and mothers; easy access to primary and preventative healthcare; and the promotion of high literacy - particularly among women - through free and universal primary and secondary education. Higher agricultural and farm wages; cost - effective transportation facilities; engaging the poor and working people in democratic processes, such as in labour and civic organisations; promoting public dialogue on environmental conservation issues; and developing social movements through the establishment of a civil society to promote environmental conservation and other grassroots projects.

One of the peculiar features of Kerala's development progress is that there is no marked disparity between achievements in the urban areas and the rural areas. The absence of this difference is mainly because of the targeted public policy in developing infrastructure, particularly social infrastructure. The special geographical configuration of towns and villages in Kerala has been favourable for the development of the rural-urban continuum. The distinction between rural and urban areas is less severe in Kerala than in other parts of the country. In the case of Kerala, the urban quality of life has improved in terms of availability of water and sanitation, power, health, education, telephones, and the like, while poverty has fallen. These improvements must be viewed against the fact that they have been achieved under the difficult fiscal situations, and with strained human resources for the emerging needs of public management. The policy of



the government has been to spatially distribute the settlements by means of providing connectivity to all villages so as to provide maximum convenience to the citizens. This is made possible by the cooperation of the people and the local self-governments.

Even when we present our development on par with European and North American levels, there were several criticisms against the model. There are different groups of people, such as members of the fishing community, dalits, female domestic helpers, migrant workers from other states and some tribal people who were left out of the development programmes. According to Franke & Chasin, the best description that can be given to Kerala's experience is a social justice model of development.

### 6.1.1.1 Second Generation Issues

Kerala Model has received much attention, and the achievements that Kerala has made following this model have been at pace with developed nations. The fiscal situation in the State has been very bad, and unlike developed countries, sustaining social expenditure has led to increasing public debt. Most of the state's resources are diverted to solve the first-generation problems of education, health care and attainment of Sustainable Development goals. The second-generation challenges that have arisen as a result of Kerala's strong social sector progress are unique to the State and deserve greater policy attention. These include an ageing population, environmental concerns, and educated unemployment. Addressing these issues provides an opportunity for Kerala to build on its achievements and further strengthen its development model.

### 6.1.1.2 Social Indicators in Kerala

Kerala stands out in India for its exceptional human development achievements. Instead of focusing only on economic expansion, the State has built a model centred on equity, education, health, gender balance, and universal access to social services. This focus on people rather than profit forms the basis of the globally recognised 'Kerala Model of Development'.

#### 1. Literacy and Human Capital

Kerala has the highest literacy rate in India at 94% (Census 2011), rising steadily from 47.2% in 1951. The gender gap in literacy has narrowed drastically, reducing from 22 percentage points in 1951 to just 4 per cent in 2011. Female literacy now stands at 92.1%, compared to the national average of 65.5%. Across districts, Kottayam leads with 97.2%, followed by Pathanamthitta at 96.6% and Ernakulam at 95.9%, while Wayanad, the lowest, still stands at a strong 89%. These outcomes reflect sustained public investment and the role of institutions like the Kerala State Literacy Mission Authority (KSLMA) in promoting basic, social, and digital literacy.

#### 2. School Enrolment and Inclusive Education

In the academic year 2024-25 (provisional), Kerala recorded 36.4 lakh students enrolled in schools, slightly lower than 37.5 lakh the year before. This small decrease is linked to Kerala's low birth rate, not shortcomings in access. Students from the Scheduled Castes (SC) and the Scheduled Tribes (ST) are proportionally well represented in

government schools. Gender inclusion is notable, with girls making up 49.1% of all enrolled students. Malappuram district has the highest number of schools at 1,571, followed by Kannur and Kozhikode. These figures demonstrate Kerala's success in ensuring inclusive and equitable schooling.

### ***3. Dropout Rates and Student Retention***

Kerala has one of the lowest dropout rates in India, i.e., only 0.08% in 2023-24, unchanged from 2022-23, compared to the all-India average of 17.1% at the secondary level. Among SC students, the dropout rate is 0.06%, while among ST students, it is higher at 0.67% due to geographic and economic barriers. Districts like Wayanad (0.42%) and Idukki (0.29%) show slightly higher dropout rates. Even so, scholarship schemes, free meals, and residential schooling have helped sustain high student retention.

### ***4. Inclusive Literacy and Lifelong Learning***

Kerala implements targeted literacy programmes for marginalised groups. For tribal communities, the Attappadi tribal literacy programme under the Kerala State Literacy Mission Authority (KSLM) was implemented across 192 tribal settlements in the Attappadi block, enabling 1,458 learners to become literate, while the Wayanad project benefited over 20,000 tribal learners. The Changathi project (2017) teaches Malayalam and basic literacy to migrant workers. The Navachethana initiative provided fourth-standard level education to 3,801 Scheduled Caste learners, and Samanwaya expanded opportunities for transgender individuals through dedicated centres like Paddanaveedu in Pathanamthitta. Such programmes ensure that education remains accessible at all stages of life.

### ***5. Equivalency and Social Literacy***

In 2023-24, a total of 1,697 students appeared for the 7th-standard equivalency exam, with 1,642 qualifying. Additionally, 21,345 students, including 52 transgender students, completed 10th and higher-secondary equivalency courses. Kerala also promotes environmental awareness, cyber safety, and social literacy through programmes like the Environmental Literacy Programme and the E-Muttam Cyber Literacy Project, which reached 26,971 people across all 14 districts. These efforts promote lifelong learning and civic awareness.

### ***6. School Infrastructure and Technology***

Nearly all government schools (99.8%) in Kerala have clean water and toilet facilities. Major infrastructure projects have been funded through KIIFB and NABARD. Kerala Infrastructure and Technology for Education (KITE) has introduced smart classrooms, deployed 29,000 robotic kits, and created AI-based learning content for Grade 7. During COVID-19, online learning platforms such as KITE VICTERS and KOOL supported 43 lakh students, ensuring academic continuity. These advances have made Kerala one of India's most digitally enabled education systems.

### ***7. Higher Education and Gender Equity***

Kerala has a Gross Enrolment Ratio (GER) of 41.3%, ranking among the top in India. In 2023-24, total enrolment in arts and science colleges stood at 3.7 lakh, with



65.3% being female students. At the postgraduate level, women accounted for 66.2% of enrolments. SC students make up 9.34% and ST students 2.47% of higher education enrolment. Prestigious institutions like Kerala University and MG University hold NAAC A++ ratings, while IIT Palakkad, IIM Kozhikode, Sreenarayanaguru Open University and the Digital University enhance Kerala's intellectual and professional ecosystem.

### **8. Public Health and Medical Services**

Kerala leads India in life expectancy at 75 years, with 71.9 years for males and 78 years for females, compared to the national average of 70 years. The State has India's lowest Infant Mortality Rate at 6 per 1,000 births, compared to the national average of 28. The Neonatal Mortality Rate is 4, the Under-5 Mortality Rate is 8, and the Maternal Mortality Ratio (MMR) is 19, compared with the national average of 97.

Kerala has 1,471 government health institutions with beds, totalling 59,847 beds, including 54,092 in modern medicine and 5,755 in AYUSH. The health sector includes 13,900 doctors and 28,235 medical personnel, with 694 Family Health Centres, 76 upgraded CHCs, and 3,700+ new posts created since 2016.

Kerala also digitised health services under the e-Health project, covering 654 hospitals and maintaining health records for 2.59 crore people. Health spending accounts for 6.43% of government expenditure and 1.66% of GSDP. The Karunya Arogya Suraksha Padhathi (KASP) has enrolled 41.99 lakh families. These figures show Kerala's comprehensive health coverage and strong focus on preventive care.

Kerala's social indicators, viz, high literacy, inclusive education, minimal dropout rates, strong female participation, advanced health outcomes, reliable infrastructure, and digital integration, provide powerful evidence of a development model focused on human welfare. This balanced approach demonstrates that social progress can lead to economic progress, proving that investment in people is the most sustainable path to long-term development.

### **6.1.1.3 Human Development Index (HDI) of Kerala**

The HDI is a measure used by the United Nations Development Programme (UNDP) to assess overall human well-being by combining three key components: health (life expectancy), education (schooling), and standard of living (income per capita). Kerala stands out in India because it consistently performs strongly in these human development dimensions.

Kerala's life expectancy at birth is around 75 years, showing its effective public health system and strong healthcare accessibility. In education, adults in the State have an average of 9.5 years of schooling, while the expected years of schooling for current children is 15.2 years, reflecting long-term investment in literacy and schooling systems.

The standard of living, measured using Gross National Income (GNI) per capita in PPP terms, is approximately 11,453 USD. Although this is modest compared to more industrialised states, Kerala still successfully converts its income into high social outcomes, which demonstrates efficient resource use and prioritisation of welfare.

Over time, Kerala's HDI has shown impressive improvement, rising from about 0.593 in 2000 to 0.709 in 2010 and reaching nearly 0.766 in 2019, reflecting steady gains in education, health, and general well-being. For the year 2022-2023, Kerala recorded a Subnational HDI of 0.758, and according to the UNDP 2023 Report, the State attained a high HDI value of 0.799, ranking second in India.

Economists often refer to Kerala's situation as an 'HDI paradox', where high human development achievements coexist with relatively lower per capita income and slower industrial growth. This proves that strong social development, gender equality, community participation and welfare-oriented governance can produce high living standards even without rapid industrial expansion.

## Recap

- ◆ The Kerala Model is a social justice model prioritising social welfare over economic growth
- ◆ The model challenges the belief that high income must precede high living standards
- ◆ Success is based on universal access to high-quality education and healthcare
- ◆ Key policies included historic land reforms and an extensive public food distribution system
- ◆ Strong labour movements and active social movements (like KSSP) drove inclusive development
- ◆ Kerala consistently ranks high in the Human Development Index (HDI) in India
- ◆ Kerala have India's highest literacy rate and lowest Infant Mortality Rate (IMR)
- ◆ Educational attainment is marked by exceptionally low school dropout rates
- ◆ There is minimal rural-urban disparity in social development
- ◆ The high HDI despite modest income is termed the 'HDI paradox'
- ◆ The model faces second-generation challenges like ageing and educated unemployment
- ◆ It is criticised for the exclusion of certain vulnerable groups (e.g., Dalits, migrant workers)



## Answers

1. Improving social outcomes (like education, healthcare, and literacy)
2. The idea that economic growth is the only way to improve the standard of living
3. The land reform movement
4. Fair-price or ration shops
5. Education and health (and their wide accessibility)
6. The Kerala Sastra Sahitya Parishad (KSSP)
7. The HDI paradox
8. The Infant Mortality Rate (IMR)
9. 0.758
10. The absence of marked disparity (or rural-urban continuum)
11. Ageing population (or educated unemployment or environmental concerns)
12. A social justice model of development

## Assignments

1. Discuss the concept of the Kerala Model of Development.
2. Examine how Kerala achieved high literacy and education standards.
3. Analyse the role of public health investments in Kerala's development.
4. Explain why the Kerala Model is often viewed as a form of social development with equity. Provide examples from areas such as gender equality, education, and welfare.
5. Critically evaluate the limitations and challenges of the Kerala Model of Development.

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## UNIT

# Health and Education in Kerala

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ identify why health and education are important in Kerala's development
- ◆ comprehend the achievements of Kerala in health and education
- ◆ recognise the main issues and challenges faced in these sectors
- ◆ describe how these challenges affect Kerala's development

### Prerequisites

Health and education have always played a central role in Kerala's development approach. Unlike many other Indian states that focused mainly on increasing income and industrial growth, Kerala invested early in the well-being and knowledge of its people. This came from historical social reforms, missionary activities, progressive government policies, and strong community participation. As a result, Kerala achieved a high literacy rate, low infant mortality, long life expectancy, and widespread access to basic education and healthcare.

For learners like you, it is important to understand that human development is not just a social concept but also an economic one. A healthy population contributes more effectively to economic activity, and an educated population improves skills, productivity, and innovation. In Kerala, these investments created a society capable of demanding rights, participating in democratic processes, and accessing better job opportunities, both locally and abroad.

## Keywords

Health, Education, Family-Planning, Kerala State Literacy Mission, Universal Literacy, Higher Education, Demographic Indicators, Aardram Mission

## Discussion

### 6.2.1 Health Sector in Kerala: Issues and Challenges

Per capita spending on health care and education in Kerala is the highest among all the states, which is reflected in the high indicators of social development in Kerala. On the health front, Kerala has many achievements - a low Infant Mortality Rate (IMR), low Maternal Mortality Rate (MMR), Low Birth Rate, and High Life Expectancy.

You would agree with the statement that a healthy society is a promise to the future. In Kerala, people living in even the most remote areas also have access to public health services. The private healthcare facilities are also growing in the State. Healthcare is relatively cheap, of good quality, and timely in the State. Public policy has played a crucial role in improving education and health, whereas demographic changes acted as a helping factor. What are the most important demographic changes that we observe in Kerala? Fertility decline in Kerala actually helped towards improvement in the health of children. Campaigns on the merits of a small family were active in the State. When the family size decreases, the total health cost for children generally reduces, assuming the cost per child remains constant. As a result of this, the poor have access to better health care for their smaller number of children. Infant mortality rate decreases in turn, leading to fertility decline with some time lag, and this results in a cycle of decrease in total fertility. Better health leads to a reduction in the infant mortality rate, which results in a fertility decline. During the 1970s, the reduction in the infant mortality rate was faster than during the earlier period. Between 1951-61 and 1961-71, the infant mortality rate declined by 28 points, that is, around 23 per cent. However, between 1961-71 and 1971-81, the infant mortality rate declined by about 40 points, the highest-ever decline. With a lag of 10 years of fertility decline, the infant mortality rate gained speed during the 1970s. Now, if we look at the nutritional intake of children, though below normal requirements, it has been increasing since the 1970s.

**Table 6.2.1 Major Demographic Indicators- Kerala State and India**

No.	Indicator	Kerala	India
1	Total population (In crore) (Census 2011)	3.34	121.06
2	Decadal Growth (%) (Census 2011)	4.90	17.7
3	Sex Ratio (Census 2011)	1084	943
4	Child Sex Ratio (Census 2011)	964	919

Source: Census of India 2011

The table above shows that the population growth in the last ten years has been around 5% for Kerala State whereas it has been nearly 18% for all India. Kerala also has a positive sex ratio of 1084 and a child sex ratio much higher than the national ratios. These are indicators of the progress the State has made through adequate policies.

The health scenario in Kerala is praised by international agencies as Good Health at Low Cost and Good Health with social justice and equity. Kerala's health sector is noteworthy for its achievements in health indicators. Certain schemes like the Aardram Mission of the Government have improved the functioning of the government hospitals right from the Primary Health Centre to government Medical Colleges. Primary Health Centres are being converted to people-friendly, Family Health Centres. Due to the efficient and enhanced implementation of the health insurance scheme, a greater number of low-income patients are able to access free treatment. The Government of Kerala introduced a new health insurance scheme on July 1, 2020, called the Karunya Arogya Suraksha Padhathi (KASP), by merging the Pradhan Mantri Jan Arogya Yojana (PM-JAY) with other government-sponsored health insurance schemes, namely Rashtriya Swasthya Bima Yojana (RSBY), Comprehensive Health Insurance Scheme (CHIS), and Senior Citizen Health Insurance Scheme (SCHIS). Implemented under the assurance mode for the full coverage of Rs. 5 lakh per family, a total of 41.36 lakh families are covered under it. So far, about 366 hospitals have been empanelled, including 189 private hospitals and 177 public hospitals.

If we look at various heads of expenditure, we can see that till the late 1970s, the share of health expenditure in the total State budget had been higher than in other states in India. For example, yearly average health expenditure accounted for 10.45% of total revenue in Kerala and 8.3% in all India in 1960-65. However, it became 9.07% and 9.54% respectively in 1985-90. The health care facilities can be divided into three categories in view of service of care: allopathy (western medicine), ayurveda, and homoeopathy, and three categories in view of the ownership: public, private and cooperative sectors. With respect to the allopathy, which comprises 36.9% of total facilities and 94.2% of total beds, the public sector owns 23.3% of the facilities and 39.5% of the beds, while the private sector owns 75.8% of the facilities and 58.3% of the beds.

The government from time to time introduces new schemes to promote health as well as ensure accessibility to health services. The Aardram Mission was started in order to make government hospitals people-friendly by improving their basic infrastructure and capacity to provide services. The mission aims to improve the efficiency of service and facilities in the government hospitals with a view to extending treatment at a reasonable cost, time, and satisfaction. Another scheme for ensuring mental health, Aswasam Depression Management in Primary Care, was started in 149 Family Health Centres across the State. Health workers and staff nurses were trained in screening using the Patient Health Questionnaire-9 (PHQ-9) and in providing psychological first aid, while doctors were trained in the diagnosis and management of depression at the primary care level. The new venture, the e-Health Project, has its primary goal to link health institutions all over Kerala. The project focuses on building a database of individual medical records that is easily accessible to the medical practitioners. It includes unique patient identification in different settings and exchange of data between different health care delivery units at primary, secondary and tertiary levels across the State. This could



avoid the repeated medical tests and can thereby reduce out-of-pocket expenses arising from the rush to clinics and labs. The scheme is being implemented in all fourteen districts of Kerala with Thiruvananthapuram as the pilot district.

Despite all these public health initiatives, we can see that the public sector caters to only 30% of the State's healthcare needs. The rest 70% is taken care of by the private sector. The missionary hospitals made healthcare affordable in the last century, along with the government hospitals. The corporate hospitals are also playing a big hand in improving healthcare facilities in the State. The fiscal crisis of the State has affected the quality of care provided in the public sector. The growth of the private sector, though seen as giving more choice to people, has definitely raised household health care expenditure. It is estimated that the poor spend 40% of their income on health, which indicates that health has become a commodity and highlights unequal access to healthcare.

Kerala's historical context demonstrates a long tradition of private participation in healthcare, with Mission hospitals delivering valuable medical services even before the formation of the State. In recent decades, private sector engagement in healthcare has continued to expand, complementing the public system and contributing to improved accessibility of services. This growth reflects the increasing healthcare needs of the population and the supportive role that private institutions play alongside government facilities. Advancements in medical technology and an ageing population have led to greater investment in innovative and specialised healthcare, showing Kerala's commitment to improved service delivery and quality of life. While Kerala has experienced slower economic growth compared to some other Indian states, this has motivated the government to further strengthen fiscal planning and health-sector collaboration, ensuring sustained support for public health initiatives and equitable service provision.

## 6.2.2 Education Sector in Kerala: Issues and Challenges

Another important stride that Kerala has made is in the field of education. Kerala has achieved almost full literacy. Kerala also has the largest consumption of newspapers, magazines, and books per capita in India.

The State has actually made use of the historical gains it has had in the field of education. The network of educational institutions established during the early modern period, the social reform movements and government intervention helped the State to establish a strong foundation in the field of education. In the early 1990s, Kerala became the first-ever State in the Indian Union to attain universal literacy.

The policies for ensuring the universal elementary education have effectively been implemented by the State since Independence. The development experience of Kerala has always been discussed at the international level, and there have been links between economic and social development in the context of third-world countries. Kerala's achievements in human development indicators are often considered unparalleled in the developing world and are frequently compared with the development indices of advanced countries. Kerala's particular development experience of high human

development achievements against a low per capita income level was mainly attributed to the State's public intervention in the health and education sectors.

Throughout the discussion on the State's achievements in human development, education has occupied a prime place. In fact, education has always had a central role in determining Kerala's performance in social development. The early attempts during the 19th and early 20th centuries - much before India became independent, made by the princely states and Christian missionaries to open schools in the different parts of the region were the first steps in Kerala's journey towards a glorious educational development of the State. The network of educational institutions established during the early modern period, coupled with other factors such as the social reform movements and the Government intervention, helped the State to strengthen its foundation in this regard. In the early 1990s, Kerala became the first State in the Indian Uto attain universal literacy. The State has also managed to implement policies effectively to make elementary education accessible for its whole population, much ahead of other Indian States.

Despite its remarkable achievements in education, Kerala still faces significant gaps in the quality of education being imparted . The same remains true while considering the achievements of the State in the higher education sector. In this context, the State of Kerala is reorienting its approaches and the institutional arrangements. The State Planning Board has constituted two expert committees. The first committee, constituted under the chairmanship of Prof. N.R. Madhava Menon, examined the plan programmes of the State with a view to maximising access to central schemes and plan resources, and to prepare an action plan suggesting steps to remove barriers in accessing resources and difficulties in implementation, particularly in the areas of higher and technical education. The second committee constituted under the chairmanship of Prof. P.O.J. Lebba, looked into the various aspects of the quality of school education in the State and submitted its report with several recommendations to improve the quality of school education.

Kerala State Literacy Mission has been implementing literacy and equivalency programmes by appointing 'Preraks' (representatives of the centre for propagating and continuing literacy programmes). It is seen that the number of persons attending the 7th equivalency examination is steadily decreasing. Over these 10 years, it decreased from 11631 in 2005 to 3492 in 2015. The Local Self Government Institutions and programmes like Sarva Shiksha Abhiyan (SSA) have contributed much to the overall development and improvement of physical infrastructure and common facilities in government schools in the State. Data shows that 98.55% of government schools have access to drinking water and 99.7% have urinal/latrine facilities. Kerala has achieved the distinction of having the lowest dropout rate of school students among the Indian states. In the year 2013-14, the dropout ratio among school students in Kerala was 0.27%. The dropout ratios in the Lower Primary stage and High School stage are higher compared to those of the Upper Primary stage. The dropout rate is highest among High School students.

There are 15 universities functioning in the State. Out of these, four universities, viz. Kerala, Mahatma Gandhi, Calicut and Kannur are general in nature and are offering various courses. Sree Sankaracharya University of Sanskrit, Thunchath



Ezhuthachan Malayalam University, Cochin University of Science and Technology, Kerala Agricultural University, Kerala Veterinary and Animal Science University, Kerala University of Health Sciences, Kerala University of Fisheries and Ocean Studies, Kerala Technological University offer specialised courses in specified subject areas. Sreenarayanaguru Open University, established as the 15th University in Kerala by the Government of Kerala in September 2020, is the State University for blended and distance education. It provides inclusive opportunities for graduation and post-graduation studies to learners of all ages and backgrounds. Besides these, the National University of Advanced Legal Studies (NUALS), established in 2005 and a Central University incepted in Kasargod district, is also functioning in the State.

### 6.2.2.1 Expenditure on Education

Expenditure on education is very important. This includes not only expenditure on infrastructure but also improving the quality of education. During the first year of the 12th Plan, an amount of 590.24 crore was earmarked for the education sector, of which 98.78 per cent was spent. The outlay was increased significantly during the last five years, and in 2016-17, the sector was allocated an amount of 1330.79 crore. Among the three sub-sectors of school education, higher education and technical education, the percentage share of higher education substantially increased over these five years, whereas outlay on technical education increased only marginally. Further, General Education (school education plus higher education) got more than 80 per cent of the total allocation in these five years.

### 6.2.2.2 Challenges in the Educational Sector

If you want to have any repair done in your house or want any manual work to be done, how many times have you called a Keralite? For the last twenty years, at least, there has been a lack of Malayali workers for such odd jobs. Have you ever thought why this is so? Despite all the achievements made in the educational sector, Kerala State faces the largest unemployment in India. The State is in a particular situation where people are actively searching for jobs, but are also not willing to take up jobs which are already available in the State. Most schools and the general education system place strong emphasis on academic knowledge, while there is growing scope to further strengthen the inclusion of essential skills required for the job market. The attitude towards manual work that Keralites have has resulted in a large number of interstate migrants taking up these jobs. From the mid-1970s onwards, there was a large number of people going for manual work to the Middle East. Another major issue confronting the educational system of Kerala is the mismatch between the courses available and the courses required. Most of the courses in higher education and technical education do not keep up with the needs of the market. Industry-academia collaboration and more vocational courses would help to improve the employment situation.

Given the State's budgetary constraints, prioritising and optimally allocating resources to education-particularly higher education remains an important area for continued policy attention.

## Recap

- ◆ Kerala spends more per person on health and education than other Indian states
- ◆ The State shows strong health outcomes: low IMR and MMR, high life expectancy and birth control success
- ◆ Fertility decline and family-planning awareness improved child health and reduced health costs
- ◆ Decline in infant mortality led to further reduction in fertility, creating a positive demographic cycle
- ◆ Kerala's population growth rate is much lower than the national average
- ◆ Kerala has a favourable sex ratio and child sex ratio compared to India
- ◆ Kerala's health model is recognised as 'Good Health at Low Cost'
- ◆ Aardram Mission strengthened public hospitals and transformed PHCs into Family Health Centres
- ◆ Health insurance (KASP) expanded access to free treatment for low-income families
- ◆ Public hospitals serve only about 30% of healthcare needs; private hospitals serve the majority
- ◆ Private sector healthcare growth has increased expenditure for households
- ◆ Historical foundations in education came from missionaries, princely states, and social reform movements
- ◆ Kerala was the first Indian State to achieve universal literacy in the early 1990s
- ◆ Education has driven Kerala's high human development performance
- ◆ Government schools have very high access to drinking water and sanitation facilities
- ◆ Kerala has the lowest school dropout rate in India
- ◆ There are 15 State universities functioning across the State, encompassing specialised institutions as well as Sreenarayanaguru Open University

- ◆ Higher education's budget share increased, while technical education saw only slight growth
- ◆ Kerala faces high educated unemployment despite strong achievements in the education sector
- ◆ Mismatch between educational courses and labour-market needs contributes to unemployment

## Objective Questions

1. What does IMR stand for?
2. Which mission improved Kerala's government hospitals?
3. What is the 2020 health insurance scheme called?
4. Which medical system has the most hospital beds in Kerala?
5. Which demographic factor declined sharply in Kerala?
6. What is the population indicator for females per 1000 males?
7. Which sector serves the most healthcare needs in Kerala?
8. What major expense burdens the poor in Kerala?
9. What was Kerala's population growth rate in 2011?
10. Which sector faces skill-job mismatch in Kerala?
11. Which project digitises patient medical records?
12. Which programme helped improve school infrastructure?
13. Which branch of education saw an increased budget share?

## Answers

1. Infant Mortality Rate
2. Aardram
3. KASP
4. Allopathy
5. Fertility
6. Sex ratio
7. Private
8. Health
9. 5%
10. Labour
11. e-Health
12. SSA
13. Higher

## Assignments

1. How did fertility decline influence health outcomes in Kerala?
2. What are Kerala's major achievements in the health sector?
3. What historical factors helped Kerala achieve high literacy?
4. What are the key challenges in Kerala's higher education?
5. How do schemes like Aardram Mission and KASP improve public health?



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## UNIT

# Infrastructure Development in Kerala

### Learning Outcomes

After completing this unit, the learner will be able to:

- ◆ comprehend the role of in Kerala's development
- ◆ identify the main infrastructural challenges faced by Kerala
- ◆ explain the role of KIIFB in infrastructure development
- ◆ describe the possible solutions and policy measures for improving infrastructure in Kerala

### Prerequisites

It is important for learners to have a basic understanding of what infrastructure means and why it matters so deeply in the development of a region like Kerala. Infrastructure includes the fundamental facilities that support everyday life, such as roads, bridges, electricity, water supply, transport systems, hospitals, schools, ports, and digital networks. These are not just technical arrangements; they shape how people live, travel, work, and interact in society. Kerala, known for its high social development and quality of life, still faces challenges in maintaining and expanding its infrastructure due to its unique geography, dense population distribution, environmental sensitivity, and financial constraints.

If a learner such as yourself is travelling to attend counselling sessions in the Learner Support Centres, good infrastructure ensures reliable transport, safe roads, steady electricity for digital services, and strong connectivity for receiving updates on schedules and guidance. Similarly, a farmer transporting produce, a tourist visiting Kerala's backwaters, or a worker in the IT sector all depend on efficient infrastructure. When these systems fail or remain inadequate, individuals and businesses face delays, higher costs, and reduced opportunities. This creates a



direct link between infrastructure and economic growth, employment generation, and social welfare. Through this unit, learners will gain a clear understanding of Infrastructural development the challenges it faces and the possible solutions .

## Keywords

Road Network, Vehicle Ownership, Rail Infrastructure, Kochi Metro, Water Metro, International Airports, KSRTC, Public Transport, KIIFB, Climate-Resilient Construction

## Discussion

### 6.3.1 Infrastructural Development in Kerala

Infrastructure development in Kerala reflects both its geographical uniqueness and its distinctive development approach. Unlike many other Indian states, Kerala has grown without strong manufacturing-led industrialisation, relying instead on services, human development and remittance-driven consumption patterns. This makes infrastructure especially valuable, as mobility and connectivity enable economic circulation, labour movement, trade activity and delivery of public services. Infrastructure in Kerala includes roads, bridges, railway corridors, metro systems, airports, ports, inland water transport, energy distribution networks, and increasingly, digital infrastructure. The State's terrain, stretching linearly along the western coast, makes north-south mobility essential, while internal movement between the coast and Western Ghats is constrained by hills, water bodies, and narrow land availability. Thus, infrastructure planning in Kerala has evolved in response to geographic realities, demographic demands and modern economic expectations.

Road infrastructure forms the backbone of everyday mobility in Kerala. According to the report of Economic Review 2024, the State has a road length of 1,91,292.39 km, including all classified and unclassified roads, which shows an extensive and intricate network of physical connectivity. National Highways account for 1,781 km of this total, with 11 major corridors passing through Kerala. These highways link Kerala to Tamil Nadu and Karnataka, facilitating interstate travel and commercial exchange. Additionally, State Highways and Major District Roads maintained by the Public Works Department cover approximately 29,573 km (with 4,128 km being State Highways and 25,445 km being MDRs) Unlike other states, Kerala's roads are predominantly built and managed by local bodies, who construct and maintain nearly 80 per cent of the road network. This decentralisation ensures responsive governance at the local level, yet also generates variation in construction quality, thickness, durability and maintenance due to differing local administrative capabilities and resource availability.

Road travel in Kerala is influenced by high vehicle ownership and dense settlement patterns. Motor vehicle registrations in Kerala reached 1.74 crore (17.4 million) by 2024, up from 1.66 crore the previous year. Private vehicles dominate this, with two-wheelers numbering over 113 lakh, cars about 38.94 lakh, auto-rickshaws around 8 lakh. The districts with the highest number of vehicles are Ernakulam and Thiruvananthapuram.

This expansion has converted roads into congested spaces, often restricting traffic movement. Roads in Kerala are typically narrow due to historical settlement patterns, limited land width and frequent residential clustering along roadsides. As a result, road infrastructure development must balance widening, land acquisition, pedestrian safety, drainage engineering and environmental preservation.

Railway infrastructure is another critical sector in Kerala's connectivity ecosystem. Kerala has 2,106 km of railway track under the Southern Railway zone, split between Thiruvananthapuram and Palakkad divisions. Historically, rail lines in Kerala have suffered from under-investment, limited doubling, a lack of straight-line tracks, and curves that reduce speed. Recognising this, the Kerala Rail Development Corporation Ltd. (KRDCL) was formed with a 51:49 joint venture between the State Government and the Central Government.

Among its projects, the Silver Line Semi-High-Speed Rail stands out as a transformative vision. With a projected operating speed of 200 km/hr from Kasaragod to Thiruvananthapuram, this rail intends to compress State-wide travel to under 4 hours, connecting urban centres, airports, IT hubs and tourism zones using fully electrified green transport infrastructure.

Likewise, the Thalassery-Mysore rail proposal aims to improve interstate connectivity toward Karnataka, while the Sabari rail corridor addresses pilgrimage traffic to the Sabarimala shrine. These projects demonstrate a shift from conventional rail-tracking to high-speed, strategically integrated rail planning.

Urban transport modernisation in Kerala is best reflected in the Kochi Metro. Launched in 2017, the Metro line stretches 25.2 km from Aluva to Pettah. It has increasingly been adopted by urban commuters, with passenger counts rising from 249 lakh in 2022–23 to 323 lakh in 2023–24. Revenues too rose significantly from ₹132.21 crore to ₹168.23 crore.

The expansion toward Kakkanad in Phase II will link the Metro system with Kerala's most prominent IT corridor (Infopark), signifying planning that integrates employment clusters with residential catchments. This approach reduces road traffic, supports public transportation culture and lowers fossil-fuel dependency.

The Kochi Water Metro presents a globally admired experiment in sustainable water-based mobility. Leveraging Kerala's natural inland waterways and island systems, the Water Metro connects 36 jetties via 15 routes for a total navigational route length of 76.2 km. It serves about 34,000 local island residents who previously depended on irregular and unsafe boat services. As of August 2024, the system had already conducted over 21,117 operations and carried more than 8 lakh passengers. This infrastructure reduces road-based commuting pressure, supports carbon-neutral mobility and enhances daily life for economically marginal communities around Kochi's island settlements.



Airport infrastructure in Kerala is remarkably advanced compared to the population and land area. Kerala is the only State in India with four international airports: Thiruvananthapuram, Kochi, Kozhikode, and Kannur. CIAL, the Cochin International Airport, handled more than 10.5 million passengers in 2023–24, with revenues crossing ₹1,014 crore. Kannur International Airport, despite being recently built, already serves around 11.77 lakh passengers. The Thiruvananthapuram International Airport is currently undergoing a ₹1,300-crore expansion project expected to raise its capacity to 12 million passengers per annum by 2027. Beyond these, the proposed Sabarimala Greenfield Airport has received site clearances from the Centre, acknowledging the heavy annual pilgrimage load and demanding regional accessibility. Airport infrastructure not only supports tourism and cultural travel but also facilitates migrant labour movement to the Gulf region, which is vital to Kerala's economic remittance inflows.

Ports and maritime infrastructure play a silent yet economically decisive role in Kerala. India conducts 95 per cent of its trade volume through maritime ports. Under the national Sagarmala programme, 839 projects worth ₹5.79 lakh crore have been sanctioned for development, including 262 projects worth ₹1.40 lakh crore already completed.

For Kerala, port modernisation supports fishing exports, container shipping, cruise tourism, and energy-related imports. The Kochi port region, together with the deep-water Vizhinjam port (under construction), positions Kerala to emerge as a trans-shipment hub in the Indian Ocean trade corridor.

Public transport continues to remain central to the State's mobility infrastructure, primarily managed by KSRTC. The corporation maintains a broad network of routes connecting even remote hilly villages. However, the KSRTC fleet is ageing, with around 60.2 per cent of buses older than ten years. While KSRTC still provides mobility access to lower-income populations, modernising this fleet is essential to prevent breakdown-prone service and improve passenger comfort. The State has also begun shifting toward electric mobility, registering more than 5,02,083 electric vehicles as of August 2024. This transition promises long-term emission-reduction benefits.

Digital infrastructure has also begun transforming Kerala's development environment. Data centres, fibre-optic connectivity expansion and public-service digital platforms have positioned Kerala as a digital-ready State. Initiatives promoting e-governance, Aadhaar-linked citizen services, land-record digitisation and online public-transport information have improved efficiency and accessibility.

Taken together, infrastructural development in Kerala reveals a system that is evolving from basic connectivity to smart, sustainable, integrated mobility and logistics. Roads are being enhanced, railways are being modernised, and urban mass transport is gradually displacing private vehicle dependence. Water-based transit illustrates ecological intelligence, while airport expansion demonstrates international economic orientation. As infrastructure improves, Kerala's human development is complemented by enhanced physical and economic connectivity. The State's infrastructural investments now mirror its ambition to move from a consumption-centric to a productivity-driven economy.

### 6.3.1.1 KIIFB and Infrastructure Development in Kerala

The Kerala Infrastructure Investment Fund Board (KIIFB) has emerged as one of the most innovative institutional mechanisms for mobilising long-term capital for infrastructure development in Kerala. Established in 1999 and restructured through amendments to the KIIF Act in 2016, its aim has been to accelerate physical and social infrastructure by bridging funding gaps and mobilising capital through approved financial instruments cleared by the Securities & Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). KIIFB has worked closely with State and Central Government agencies using Special Purpose Vehicles (SPVs) for project execution, strengthening the administrative capacity of departments involved in infrastructure planning and implementation.

The financing model of KIIFB has been one of its most notable strengths. The Board raises capital through bonds and structured financial tools while ensuring transparency and accountability. A unique feature of this model is the State-Government-backed revenue-sharing mechanism: initially, 10 per cent of Motor Vehicle Tax was allocated to KIIFB, which increased to 50 per cent by the fifth year, alongside contributions from petroleum cess. Government borrowings for KIIFB ranged from ₹5,000 to ₹15,000 crore across four years, with a minimum of ₹100 crore mandated for each major project. These commitments are guaranteed by the Government of Kerala and strengthened through supporting agencies such as the Kerala State Financial Enterprises Ltd. (KSFE), thereby allowing greater investor confidence.

The progress achieved through KIIFB funding has been substantial, particularly since 2016. The Project Appraisal Division of KIIFB undertakes detailed technical and financial evaluation of every proposed project, monitors ongoing implementation, and ensures adherence to timelines and cost efficiency. This system of structured planning and professional oversight has resulted in a measurable improvement in project execution and public asset creation throughout the State.

As of 31 March 2025, KIIFB has approved a total of 1,156 projects with a cumulative sanctioned amount of Rs.88,070.26 crore. Out of this, 1,149 are infrastructure projects with an investment approval of Rs.68,070.26 crore, and 7 projects fall under the dedicated Land Acquisition Pool with Rs.20,000 crore in allocation.

This vast investment portfolio covers core infrastructure areas such as roads, bridges, information technology, general education, higher education, water resources, electricity, health infrastructure, transportation, tourism, and urban development. Each project is structured to generate long-term economic and social returns. A detailed breakdown shows that the Public Works Department (PWD) alone accounts for 513 projects totalling ₹33,460.74 crore in approved amount, making it the largest recipient of infrastructure funding. The Water Resources sector follows with investment approvals of ₹6,911.99 crore for 101 projects, while the Health and Family Welfare Department has received ₹6,320.82 crore for 95 projects, reflecting Kerala's continuing focus on social infrastructure.



The education sector also enjoys significant support, with 158 projects under General Education receiving ₹3,217.58 crore, while 63 projects in Higher Education have received ₹1,935.20 crore.

These figures show how KIIFB has created an enabling framework for sustained infrastructure development in both physical and human capital-oriented sectors.

Infrastructure development under KIIFB has been most visibly transformative in road connectivity projects. The Ayoor-Anchal-Punaloor road project, for instance, covers 10.86 km and was sanctioned at ₹123.37 crore. Completed in November 2024, it was constructed to Indian Roads Congress standards and significantly improves connectivity in the region.

Similarly, the Karetta-Maloor road spanning 9.6 km was sanctioned with ₹26.09 crore and completed in October 2024, providing enhanced transport connectivity and reducing travel time in rural Kannur.

Major bridge developments such as the Thottappally–Naluchira Bridge, constructed at a sanctioned cost of ₹60.73 crore and extending 458 metres, now facilitate reliable cross-river transport across the Pampa, replacing limited boat access and improving rural market linkages.

One of the most ambitious infrastructure undertakings is the Hill Highway project, designed to run 1,180 km along Kerala's eastern highland corridor. Of this, 793.68 km is being financed through KIIFB at a total cost of ₹3,500 crore, dramatically improving transport access to high-range agricultural regions and interior settlements. This kind of investment expands the economic geography of Kerala by linking remote locations to urban markets and service centres.

In health infrastructure, KIIFB has approved 95 health-related projects with total funding crossing ₹6,000 crore, including ₹1,532 crore specifically for medical college modernisation. It has also funded a State-wide network of isolation wards at ₹1.68 crore per location, totalling ₹236 crore, of which 55 facilities are already operational. In addition, ₹3,050 crore has been sanctioned for upgrading district and taluk hospitals, enhancing capacity in critical services such as dialysis units and coronary care facilities. These investments have strengthened Kerala's healthcare system and improved the State's resilience during health emergencies and epidemics.

Likewise, in education, KIIFB-backed projects have transformed Kerala's public school infrastructure. Under the Education Protection Mission, 44,705 high-tech classrooms were established in more than 4,500 government and aided schools, benefiting about 2.1 million students. This initiative also included teacher ICT sessions that trained over 77,000 educators across the State. Additionally, 11,257 high-tech labs were set up in primary schools, and 385 schools have been allocated up to ₹3 crore each to upgrade facilities.

KIIFB has also provided ₹485.26 crore for improving infrastructure in 51 Government Arts and Science Colleges, with many already completed. These investments foster educational excellence and ensure equitable digital learning access throughout Kerala.

Kerala's approach to environmental infrastructure is another vital sector. Projects addressing human-wildlife conflict, funded at Rs.110 crore, include the construction of fencing, relocation of vulnerable families, solar lighting, and surveillance systems using drones and camera traps, promoting safe coexistence and wildlife conservation. Tourism-focused infrastructure projects with a total allocation of Rs. 583.06 crore also build on Kerala's natural and cultural heritage assets, improving tourism facilities such as Alappuzha and Thalassery heritage clusters, beach development projects, and lake rejuvenation initiatives.

Finally, the Land Acquisition Pool, with Rs.20,000 crore allocated, enables the State to proactively acquire land for large-scale industrial corridors and National Highway expansions, including key projects under PWD–NHAI and strategic industrial parks in Kerala. By ensuring pre-emptive land availability, KIIFB reduces delays that commonly hinder major infrastructure projects and stimulates industrial development.

In reality, KIIFB has significantly advanced Kerala's capacity for infrastructure creation across multiple dimensions-transport, health, education, industry, environment, culture, and tourism. By applying a structured financing model, a professional appraisal mechanism, and transparent implementation supervision, KIIFB has strengthened Kerala's economic foundations and improved everyday life for millions of people. The sustained expansion of infrastructure under its guidance shows not only financial innovation but also a long-term development vision that supports inclusive growth, human capital formation, and technological readiness for Kerala's future.

### **6.3.2 Challenges and Resolutions in Kerala's Infrastructure Development**

Kerala's infrastructure development, despite its progress, faces a series of persistent and multidimensional challenges that complicate both the planning and execution of projects. One major structural challenge stems from Kerala's geographical constraints, as the State's long, narrow topography between the Western Ghats and the Arabian Sea leaves limited space for road expansion, railway alignment and large-scale construction. Land acquisition becomes complicated, costly and socially sensitive because settlements are densely distributed with high population per square kilometre. Communities often resist the displacement and demolition of roadfront residential and commercial properties, delaying major infrastructure upgrades such as highway widening or railway corridor modernisation. This difficulty is further multiplied in humidity-sensitive wet regions, where soil erosion and monsoon flooding require additional structural strengthening of roads and bridges.

Another major problem arises from Kerala's extremely high vehicle density compared to the available road width. Vehicle registrations in the State have risen exponentially, leading to congestion on urban corridors and even rural roads. The massive number of private vehicles, particularly two-wheelers and cars, has put immense pressure on existing networks. While infrastructure ideally evolves together with rising mobility demand, Kerala witnessed vehicle growth occurring far faster than road expansion. This situation also worsens environmental conditions, as more vehicles increase fuel consumption and vehicular emissions. Moreover, traffic congestion contributes to

delayed logistics operations, inefficiencies in trade delivery and heightened travel fatigue among commuters and transport workers.

The condition of public transport infrastructure also presents a challenge. KSRTC, being the backbone of government-operated mobility service, suffers from fleet ageing and financial stress. An ageing fleet means frequent breakdowns, higher maintenance costs, less reliability and passenger discomfort. Delays in replacement cycles lead to vehicles operating beyond optimal service life, reducing operational efficiency. In addition, competition from private and app-based mobility solutions further diminishes KSRTC's profitability, reducing its capacity for reinvestment. Such issues also weaken the larger goal of reducing private vehicle dependency, as many commuters still view personal mobility as more efficient than outdated bus networks.

Kerala's railway infrastructure, despite ambitious proposals, suffers from slow execution and insufficient track capacity. Large projects like the Silver Line faced political turbulence, land protests and intergovernmental disagreements that slowed implementation. Existing railway lines remain mostly single or limited double tracks, with track curves and gradient limitations preventing high-speed operation, especially across central Kerala. This hinders efficient long-distance freight movement and suburban passenger traffic. The absence of a suburban railway system in major metropolitan areas like Thiruvananthapuram and Kozhikode keeps commuters dependent on roadways.

Financial constraints form another critical challenge. Infrastructure projects in Kerala are capital-intensive, yet the State's revenue base is limited due to relatively small manufacturing and industrial output. Kerala's fiscal position is strained, with high expenditure requirements for health, education and welfare; while infrastructure requires vast upfront investment, delayed returns and long-term capital lock-in. This dependence on central grants and external borrowing makes sustained infrastructure development vulnerable to political and funding fluctuations.

Environmental vulnerabilities further complicate development. Kerala's tropical climate brings intense rainfall, leading to recurrent flooding, soil instability and landslides. Many roads require frequent resurfacing or reconstruction due to water damage. Infrastructure planning must therefore integrate climate resilience through elevated construction, reinforced foundations, proper drainage structures and erosion control. Failure to do so results in repetitive maintenance costs and frequent transport interruptions during monsoon periods. The State also prioritises ecological conservation, making large-scale land alteration politically and socially sensitive. This often delays construction timelines but reflects Kerala's ethical approach to environmental sustainability.

Despite all these challenges, Kerala has simultaneously been experimenting with forward-looking infrastructural strategies. The State is gradually moving towards sustainable mobility by aggressively promoting electric vehicles. The growing registration of EVs demonstrates public readiness for technological transition and lower-carbon transport culture. Additionally, the State aims to modernise public transport by incorporating electric buses and replacing ageing KSRTC fleets. This will gradually build trust in public transport and reduce the psychological dependency on private mobility.

A major resolution strategy lies in multimodal integration. Rather than relying exclusively on roads or railways, Kerala is building a network where different transport systems complement each other. The integration of the Kochi Metro with the Water Metro and bus corridors represents a shift towards seamless urban mobility. Such systems reduce passenger stress, save time and increase the attractiveness of public routes. In future, similar metro or light rail systems may be introduced in Thiruvananthapuram and Kozhikode, imitating successful models of Western and ASEAN cities.

Land acquisition problems can be addressed through reforms that include community engagement, transparent compensation, rehabilitation guarantees and coordination with local self-government bodies. Kerala's social environment is highly participatory, and infrastructure projects succeed best when communities are treated as partners rather than as obstacles. Coordinating infrastructure planning with local development needs ensures cooperation rather than resistance.

Improved use of engineering technology and smart monitoring can also enhance efficiency. Implementation of AI-enabled traffic management, digital signalling for railway movement, GPS-linked bus operations and predictive maintenance can cut operational costs and improve service reliability. Smart infrastructure also enables better utilisation of existing assets without proportionate expansion.

Finally, the long-term solution lies in strategic development planning, integrating infrastructure with economic activity patterns. Instead of fragmentary projects, Kerala must align road corridors with industrial zones, ports with logistics parks, airports with business hubs and metros with employment clusters. Such a pairing ensures that infrastructure directly generates economic returns rather than being an isolated social expenditure. With integrated planning, climate-adaptive construction, evolving public transport and a shift towards green mobility, Kerala can overcome its infrastructural constraints. Through a balanced and sustainable approach, the State can continue progressing toward an efficient, climate-resilient and economically enabling infrastructure network.

## Recap

- ◆ Kerala's development relies heavily on infrastructure due to its service-led economy and remittance-based growth
- ◆ The State's narrow geography makes north-south connectivity essential and limits space for construction
- ◆ Kerala has an extensive road network of 1.91 lakh km, mostly built and managed by local bodies
- ◆ Vehicle ownership is extremely high (1.74 crore), causing road congestion and mobility pressure

- ◆ Rail infrastructure is limited and historically under-invested, prompting new high-speed rail proposals
- ◆ Kochi Metro and Water Metro improve urban mobility while reducing road traffic and emissions
- ◆ Kerala has four international airports, aiding tourism and migrant labour movement
- ◆ Ports like Kochi and Vizhinjam support maritime trade and logistics expansion
- ◆ KSRTC provides wide public transport coverage, but suffers from an ageing bus fleet
- ◆ KIIFB plays a crucial role by financing over ₹88,070 crore worth of infrastructure projects
- ◆ KIIFB funds key sectors such as roads, health, education, water resources and tourism
- ◆ Health and education infrastructure saw major improvements through KIIFB interventions
- ◆ Challenges include land acquisition hurdles, monsoon damage, congestion and financial constraints
- ◆ Solutions include EV promotion, public transport modernisation, multimodal connectivity and smart infrastructure planning
- ◆ Transparent community engagement and climate-resilient construction are essential for future development

## Objective Questions

1. Which sector forms the backbone of everyday mobility in Kerala?
2. Which department maintains State Highways and Major District Roads?
3. Which transport corporation manages most government-run bus services in Kerala?
4. What is the projected speed of the Silver Line Semi-High-Speed Rail?
5. Which city hosts Kerala's first Metro system?

6. What does KRDCL stand for?
7. How many international airports does Kerala have?
8. Which organisation finances major infrastructure projects in Kerala?
9. Where is the Vizhinjam port being developed?
10. Which State has the highest vehicle ownership density discussed in the text?
11. Which organism of the Government handles project appraisal and monitoring for KIIFB?
12. Which transport initiative in Kerala runs through water-based channels?
13. Which State is planning a Greenfield airport at Sabarimala?

## Answers

1. Roads
2. PWD
3. KSRTC
4. 200 km/hr
5. Kochi
6. Kerala Rail Development Corporation Limited
7. Four
8. KIIFB
9. Thiruvananthapuram
10. Kerala
11. Project Appraisal Division (PAD)
12. Water-Metro
13. Kerala

## Assignments

1. Explain how Kerala's geography influences its infrastructure planning.
2. Describe the role of KIIFB in Kerala's infrastructure development.
3. Discuss the importance of the Kochi Metro and Water Metro in urban mobility.
4. What are the major challenges faced by Kerala in road development and expansion?
5. How do KIIFB-funded health and education projects improve human development in Kerala?

## Reference

1. Government of Kerala. (2024). *Economic Review 2023–24*. Thiruvananthapuram: Kerala State Planning Board.
2. Kerala Infrastructure Investment Fund Board. (2025). *Annual Report 2024-2025*. Government of Kerala.
3. Oommen, M. A. (2008). *Rethinking Development: Kerala's Development Experience* (Vol. 1). Concept Publishing Company.

## Suggested Reading

1. Devika, J. (2016). *The Kerala Model in the Time of Hindutva*. *Economic and Political Weekly*, 51(46).
2. Kannan, K. P., & Pillai, N. (2007). *Social Security in India: The Long Road Ahead*. Social Protection Discussion Paper Series.
3. Kurien, C. T. (1995). *Global Capitalism and the Indian Economy*. Orient Longman.
4. Ministry of Statistics and Programme Implementation (MoSPI), GoI. (2024). *PLFS Annual Report*.

**MODEL QUESTION PAPER SETS**

SGOU



# SREENARAYANAGURU OPEN UNIVERSITY

QP CODE: .....

Reg. No. : .....

Name: .....

**SIXTH SEMESTER B.A. ECONOMICS EXAMINATION**  
**DISCIPLINE CORE COURSE**  
**B21EC07DC - Economic Development and Policy in India**  
(CBCS - UG)  
2022-23 - Admission Onwards  
**MODEL QUESTION PAPER- SET A**

Time: 3 Hour

Max Marks: 70

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## SECTION A

*Answer any ten questions of the following. Each question carries one mark.*

**(10 × 1 = 10 Marks)**

1. Which currency notes were withdrawn from legal tender status in 2016?
2. What was the central element of India's development strategy?
3. Which organisation did India approach for financial assistance during the 1991 crisis?
4. Define Kerala model of development.
5. Which scheme promotes entrepreneurship among SC/ST and women?
6. Define globalisation.
7. What is the government's initiative to promote manufacturing in India?
8. Name one major achievement of Kerala in the health sector.
9. Which institution replaced the Planning Commission?
10. Who is known as the father of the white revolution?
11. In which year was GST introduced in India?
12. Name the social welfare scheme that provides health insurance to poor families?

13. Which prime minister of India led the first phase of bank nationalisation?
14. Identify one issue faced by the education sector in Kerala.
15. Define MRTP.

### **SECTION B**

*Answer any **ten** questions of the following. Each question carries **two** marks.*

**(10×2 =20 Marks)**

16. What were the drawbacks of the Green Revolution in India?
17. What is demonetisation?
18. Define unemployment.
19. Differentiate between FDI and FII.
20. What is meant by the second green revolution?
21. Briefly state the objectives of financial inclusion.
22. What are the features of a mixed economy?
23. What are the major differences between the planning commission and NITI Aayog?
24. List out any two achievements of the first phase of bank nationalisation in 1969.
25. State any two features of the Kerala model of development.
26. Describe the features of the Industrial policy resolution of 1956.
27. Suggest any two measures to improve infrastructure in Kerala.
28. List out the threefold classification of industries under the Industrial Policy Resolution (IPR), 1956.
29. State the challenges faced by Kerala's health sector.
30. What is meant by minority disinvestment?

## SECTION C

*Write a short note on any **five** questions of the following.  
Each question carries **four** marks.*

**(5×4 = 20 Marks)**

31. Elucidate the role of the Narasimham committee in banking reforms.
32. Explain the shift in India's development strategy after 1991.
33. Discuss the role of education in Kerala's development.
34. What are the major objectives of India's economic development?
35. Explain the importance of the health sector in Kerala.
36. Explain the role of MRTP Act in addressing monopolistic practices.
37. Describe the importance of Intellectual Property Rights (IPR).
38. Describe the four stages of the demographic transition model.
39. Discuss the major issues related to GST in India.
40. Discuss the effects of demonetisation in India.

## SECTION D

*Answer any **two** questions of the following. Each question carries **ten** marks.*

**(2×10 =20 Marks)**

41. Explain India's financial inclusion strategy. Analyse its role in inclusive economic growth.
42. Assess the importance of bank nationalisation. Discuss its limitations.
43. What are the main causes of poverty? Explain the various measures undertaken to eradicate poverty.
44. Explain the objectives of industrialisation in India. Critically examine the achievements and limitations of the industrialisation strategy adopted after Independence.



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2022-23 - Admission Onwards  
**MODEL QUESTION PAPER- SET B**

Time: 3 Hour

Max Marks: 70

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## SECTION A

*Answer any ten questions of the following. Each question carries one mark.*

**(10 × 1 = 10 Marks)**

1. Which term was used to describe India's slow growth from the 1950s to the 1980s?
2. What was the main focus of the first five-year plan?
3. Which system controlled industries in India before 1991?
4. Identify the country from which India imported high-yielding wheat varieties during the Green Revolution.
5. Which health insurance scheme aims to provide financial protection for low income families?
6. Define disinvestment.
7. Which type of unemployment is commonly found in agriculture due to the seasonal nature of work?
8. What is the Kerala Model of Development known for?
9. Which recent pandemic caused a major economic slowdown in India?
10. What was the central element of India's development strategy?
11. GST refers to which type of tax system?

12. State the primary aim of the IRDP.
13. Which act replaced the MRTP Act of 1969 to promote fair competition in India?
14. Which indicator reflects Kerala's achievement in human development?
15. When did the nationalisation of 14 major commercial banks take place in India?

### **SECTION B**

*Answer any **ten** questions of the following. Each question carries **two** marks.*

**(10×2 =20 Marks)**

16. Briefly explain the challenges facing the agriculture sector in India?
17. State the reasons for withdrawing high-value currency notes.
18. Examine the determinants of labour force transition in India in the post-reform period.
19. Briefly explain DBT?
20. State the significance of Five Year Plans in India's economic development.
21. List out the benefits of GST.
22. Briefly explain the role of government in a mixed economy.
23. State the economic impacts of COVID-19.
24. Write a note on importance of bank nationalisation in India.
25. Define infrastructure development.
26. What are the objectives of Competition Act, 2002.
27. Write a note on green revolution.
28. State the significance of bank nationalisation in India.
29. What are the reasons for Kerala's high human development indicators.
30. Write a note on globalisation

### .SECTION C

*Write a short note on any **five** questions of the following.*

*Each question carries **four** marks.*

**(5×4 = 20 Marks)**

31. What are the major components of India's agricultural strategy?
32. What are the major objectives of India's economic development strategy?
33. Explain the role of NITI Aayog in India's development process.
34. Discuss the role of the government in promoting industrial development in India.
35. Assess the contribution of KIIFB to infrastructure development in Kerala.
36. What are the key reasons for bank amalgamation in India.
37. Explain the concept of privatisation in India.
38. Discuss the impact of globalisation on India's economy since 1991.
39. Discuss the different methods of disinvestment.
40. What are the objectives of the Industrial Policy Resolution of 1956?

### SECTION D

*Answer any **two** questions of the following. Each question carries **ten** marks.*

**(2×10 =20 Marks)**

41. Explain the New Economic Policy of 1991 and analyse its major features.
42. Analyse how the MRTP Act sought to protect consumer interests in India. What were its major shortcomings, and why was it replaced by the Competition Act, 2002?
43. Evaluate the effects of economic liberalisation on the Indian industrial sector, highlighting both opportunities and challenges.
44. Examine the Kerala Model of Development and discuss its achievements and limitations.

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വിദ്യായാൽ സ്വതന്ത്രരാകണം  
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