Economics for Engineers (Unit 5)
Credits: 3
Course Code: 18HSS03

Economics Development: Overview of post independence

The defining feature of the economic programme of independent India's first government was to accelerate the transition to a modern economy dominated by industry. Agriculture and related activities at that time accounted for around half of GDP and modern industry in the form of factory establishments for just above 6 per cent. Thus, colonial rule had made India the victim of the barriers to productivity increase typical of predominantly agrarian economies.

These circumstances influenced the Nehruvian vision that made rapid diversification in favour of manufacturing the principal economic objective. The 'big planners' of that time did recognize that this will not deliver the jobs needed to absorb the country's large underemployed and unemployed labour force and address the extreme poverty and deprivation that colonialism had left behind. But those challenges it was argued could be addressed separately, so long as growth got going.

At first it appeared that success was at hand. The years after 1951, and especially after 1956, did see large and rapidly rising investments in industry and infrastructure. But, it is clear, with hindsight, that the process lost momentum rather early. The share of manufacturing in GDP did rise from around 9 per cent in 1950-51 to 16 per cent in 1961. But it did not cross the 18 per cent mark for a little more than a decade after that, and touched 20 per cent at its peak in 1996. This was well short of what had been achieved in many other comparable economies. In 1971, manufacturing's share in GDP stood at 29 per cent in Brazil and 35 per cent in China. In 1996, the figure was 27 per cent in Korea, 28 per cent in Malaysia and 26 per cent in Thailand. The contribution of manufacturing to employment in India was, as expected, was even more dismal.
There were two principal and proximate factors responsible for this shortfall relative to targets in a country that showed much promise as a candidate for successful industrialisation. One was the failure to grow the mass market for manufactures, through appropriate measures, and especially through the implementation of land reforms that helped raise the incomes of the majority among the agriculture-dependent population. The other was the inability of the state to mobilize the resources to finance the expenditures needed to drive and facilitate the process of industrialization.

Agrarian reform was needed to break down land monopoly, which by facilitating rack-renting by absentee landlords, who also earned surpluses from usury and control over poorly-paid, bonded labour, dis-incentivised productive investment in land on the part

of semi-feudal and feudal land owners. It also, on the other hand, deprived the tenants who cultivated the land of the means and the incentive to invest. Productivity enhancing investments were thus limited. Further, land concentration meant that whatever increases in agricultural income did accrue, were not distributed in a manner that encouraged the expansion of demand for manufactured mass consumption goods.

In the event, the expansion of domestic demand for the still nascent factory sector came to depend on government expenditures, which by financing direct purchases by the state, increasing demand mediated through employment in the state sector, and the multiplier effects of these, drove manufacturing growth. But the inability of the state to raise through taxation the resources needed to finance these expenditures, and the limits to other forms of potentially inflationary financing like indirect taxation and borrowing, meant that growth remained at the disappointing pace at which it occurred.

Both these features of the development path—the failure of land reform and the fiscal crunch affecting the State—were in turn the result of an uneasy compromise between the landlords in the rural areas and the business elite in the urban areas that had as its counterpart a compromise between the conservatives in the Congress, on the one hand, and Nehru and his supporters in Congress governments at the Centre and the states, on the other. Land reforms, though flagged in many policy documents and in government statements of intent remained largely unimplemented, and direct tax revenues were woefully inadequate to support the programme of State-led economic modernisation. Structurally the economy remained the same, not merely in terms of the degree of diversification, but also in terms of the structures of economic dominance, with traditional landlords and business groups concentrating economic power in their hands.

The dominance of a small industrial elite also meant that the government could not push them to produce for export to international markets, that would have helped earn scarce and precious foreign exchange, as well as find an alternative source of demand to supplement that deriving from the domestic market. Indian capital preferred the comfort of the protected home market, which though trapped in slow growth, was quite lucrative for those at the top of the wealth pyramid. In the event the picture was one characterised by slow growth, a neglect of agriculture and balance of payments vulnerability reflected in periodic crises.

One reason why this vulnerability did not result in multiple crises that were not as intense as the inflation-cum-balance of payments crisis that affected India in the mid-1960s, which lead to the devaluation of the rupee and forced reliance on the Bretton Woods institutions for recovery, was the ability to use temporary measures of crisis prevention and even growth management. The most striking example of the latter was the adoption of the Green Revolution strategy in the late 1960s, riding on the productivity improvements that new high-yielding varieties promised if appropriately exploited. Combining delivery of HYV seeds, the fertilisers and pesticides that needed to accompany them, and credit (including for investments that helped ensure more stable access to water), the government did manage to raise yields in foodgrain

production. This partly made up for the absence of land reforms, since it encouraged resumption of land by large landholders for direct cultivation given the promise of higher profits from investment. It also reached the benefits of the technology to farmers with medium-sized holdings. The gradual spread of Green Revolution "practices" across the country did help stave off the worst food crises. Combined with a public procurement and distribution system that was partly aimed at stabilising prices received by farmers, this also kept at bay the kind of famines that historically plagued the country.

What went unnoticed was that the Green Revolution helped shift land reform and the embarrassment of having left it unimplemented out of day to day policy discourse. The "success" also helped conceal the damaging effects of the way the Green revolution strategy was implemented on the soil, on the water table and on the quality of water. Those effects of the misuse of the Green Revolution are now being felt in the form of various threats to the sustainability and viability of farming.

A second temporary reprieve came in the 1980s in the form of access to borrowing from abroad. By the 1970s the international financial system had changed hugely. Surpluses from oil exporters benefiting from the oil shocks and capital accumulated from the pension funds servicing the post-war baby-boom generation were finding their way into financial markets in search of returns. Developing countries like India, which earlier did not have access to private financial capital, were now discovered as emerging markets and favoured with capital flows. To exploit this opportunity, India opened its doors to inflows of credit from the international commercial banking system and non-resident Indian financial investors. Access to this capital allowed the government to increase its own debt financed expenditures, since the foreign capital could be used to finance imports that kept domestic inflation in control. Public debt rose, foreign debt increased, but public expenditure helped accelerate growth, and imports helped dampen inflation. This was the decade when India was seen to have escaped from the "Hindu rate of growth" in which it had ostensibly been trapped. But the cost to be paid was a rising import bill and current account deficit, which soon generated fears among foreign lenders that India may not have the foreign exchange to meet its debt service commitments. Soon the credit flow from abroad dried up, reserves collapsed, and in July 1991 a balance of payments crisis forced India to turn to the IMF for a loan. To assuage foreign financiers and win the support of the IMF, the government used the crisis to launch a deep-seated programme of neoliberal reform involving drastic liberalisation of trade and foreign investment and wide-ranging deregulation in the domestic sphere.

Since the reform was supposed to enforce fiscal discipline as well, which would have necessitated curtailing government expenditure, the expectation was it would slow growth. But that was not to be the case. In fact, growth stayed at the 1980s level through the 1990s and then accelerated after 2003, taking India to an even higher growth trajectory. Though growth is off the peaks it touched before the global financial crisis, official figures suggest that India is keeping pace with and often overtaking China as the world's fastest growing nation.

But this too seems to have been because of rather unusual circumstances. When the balance of payments crisis struck in 1991, the fact that India had paved the way for removal of most controls on the inflow of foreign capital, especially financial capital into India's equity and debt markets, provided the basis for a third reprieve. The effects of this reliance on foreign capital proved even stronger after 2003 because of a capital inflow surge and its domestic collateral effects.

The 1991 crisis did in the first instance freeze up flows from the international banking system to India. But flows from foreign institutional investors, who were now permitted entry into India's equity and subsequently debt markets, made up for the loss. This allowed continuation of the 1980s style growth strategy where the government pump-primed the system with deficit spending and kept inflation at bay with the help of foreign exchange. But reliance on foreign finance finally forced the state to implement fiscal reform, by tying its hands with legislation in the form of Fiscal Responsibility and Budget Management Acts. The FRBM Act at the central level was passed in 2003, setting off a process that has brought the fiscal deficit to GDP ratio down to close to 3 per cent. This forecloses growth based on debt-financed government spending.

If despite this cutback in government spending growth in India shifted onto a higher trajectory, it was because of a spike in debt financed private spending. The large liquidity infused into the system because of the post-2003 capital inflow surge triggered a boom in bank credit, focussed largely on retail lending (loans for housing, automobile and durable purchases, and sundry personal expenditures) and on lending to investments in capital intensive industry and infrastructure. While this spurred growth in the first instance, it also increased the exposure of banks to areas and projects that where vulnerable and were soon defaulting. The net result is that a decade after the boom began non-performing assets in the banking system have risen sharply and bank profitability and even solvency are under threat. As a result credit growth is shrinking as bank turns cautious, shaving off a few percentage points from the growth rate.

However, for India's majority, the problem is not just sustained growth. It is that the reliance on fortuitous, unsustainable and volatile stimuli to drive growth has had as its counterpart a pattern of growth least suited to employment generation, deeply in equalising and largely incapable of addressing even the worst forms of social deprivation. Much has indeed changed as India floated across trajectories driven by one fortuitous factor to another. Yet little has changed when seen from the point of view of those whom development is supposed to ultimately serve.

List of all Five Year Plans of India

The concept of economic planning in India is derived from the Russia (then USSR). India has launched 12 five year plans so far. First five year plan was launched in 1951.

Now the present NDA government has stopped the formation of five year plan. So 12th five year plan would be called the last five year plan of India.

The concept of economic planning in India is derived from the Russia (then USSR). India has launched 12 five year plans so far. First five year plan was launched in 1951. Now the present NDA government has stopped the formation of five year plans.
So 12th five year plan would be called the last five year plan of India.

The **decades-old Five-Year Plans will make way for a three-year action plan**, which will be part of a seven-year strategy paper and a 15-year vision document. The Niti Aayog, which has replaced the Planning Commission, is launching **a three-year action plan from April 1, 2017**.

1. First Five Year Plan:
I. It was made for the **duration of 1951 to 1956.**
II. It was based on the Harrod-Domar model.
III. Its main focus was on the agricultural development of the country.
IV. This plan was successful and achieved **growth rate of 3.6% (more than its target)**

2. Second Five Year Plan:
I. It was made for the duration of 1956 to 1961.
II. It was **based on the P.C. Mahalanobis Model.**
III. Its main focus was on the industrial development of the country.
IV. This plan was successful and achieved growth rate of 4.1%(P.C. Mahalanobis)

3. Third Five Year Plan:

I. It was made for the duration of 1961 to 1966.

II. This plan is **called 'Gadgil Yojna' also.**

III. The main target of this plan was to make the economy independent and to reach self active position of take off.

IV. Due to china war, this plan could not achieve its growth target of 5.6%
Welfare Programmes by the Government of India
4. Plan Holiday:
I. The duration of **plan holiday was from 1966 to 1969.**
II. The main reason behind the plan holiday was the Indo-Pakistan war & failure of third plan.

III. During this plan annual plans were made and equal priority was given to agriculture its allied sectors and the industry sector.

5. Fourth Five Year Plan:
I. Its duration was from 1969 to 1974.

II. There were two main objective of this plan i.e. growth with stability and progressive achievement of self reliance.

III. During this plan the slogan of "**Garibi Hatao" is given during the 1971 elections by Indira Gandhi.**
IV. This plan failed and could achieve growth rate of 3.3% only against the target of 5.7%.

6. Fifth Five Year Plan:
I. Its duration was 1974 to 1979.

II. In this plan top priority was given to **agriculture,** next came to industry and mines.
III. Overall this plan was successful which achieved the growth of 4.8% against the target of 4.4%.

IV. The draft of this plan was **prepared and launched by the D.P. Dhar.** This plan was terminated in 1978.
7. Rolling Plan: This plan was started with an annual plan for 1978-79 and as a continuation of the terminated fifth year plan.
8. Sixth Five Year Plan:
I. Its duration was from 1980 to 1985.

II. The basic objective of this plan was poverty eradication and technological self reliance.

III. It was based on investment yojna, infrastructural changing and trend to growth model.

IV. Its growth target was 5.2% but it achieved 5.7%.

9. Seventh Five Year Plan:
I. Its duration was from 1985 to 1990.

II. Objectives of this plan include the establishment of the self sufficient economy, opportunities for productive employment.

III. For the first time the private sector got the priority over public sector.
IV. Its growth target was 5.0% but it achieved 6.0%.

Annual Plans: Eighth five Plan could not take place due to volatile political situation at the centre. So two annual programmes are formed in 1990-91& 1991-92.

10. Eighth Five Year Plan:
I. Its duration was from 1992 to 1997.

II. In this plan the top priority was given to development of the human resources i.e. employment, education, and public health.

III. Duing this plan Narasimha Rao Govt. launched New Economic Policy of India.

IV. This plan was successful and got annual growth rate of 6.8% against the target of 5.6%.

11. Ninth Five Year Plan:
I. Its duration was from 1997 to 2002.

II. The main focus of this plan was "**growth with justice and equity".**
III. It was launched in the 50th year of independence of India.

IV. This plan failed to achieve the growth target of 7% and grow only at the rate of 5.6%.

12. Tenth Five Year Plan:
I. Its duration was from 2002 to 2007.

II. This plan aims to double the per capita income of India in the next 10 years.

III. It aims to reduce the poverty ratio 15% by 2012.

IV. Its growth target was 8.0% but it achieved only 7.2%.

13. Eleventh Five Year Plan:
I. Its duration was from 2007 to 2012.

II. It was prepared by the C. Rangarajan.

III. Its main theme was **"faster and more inclusive growth"**
IV. Its growth rate target was 8.1% but it achieved only 7.9%

14. Twelfth Five Year Plan:
I. Its duration is from 2012 to 2017.

II. Its main theme is "**Faster, More Inclusive and** Sustainable Growth".
III. Its growth rate target is 8%.

IV. It is the current five year plan of India.

Three-year action plan is document only provides a broad roadmap to the government. The document does not detail any schemes or allocations as it has no financial powers. Since it need not be approved by the Union Cabinet, its recommendations are not binding on the government. The documents of the Niti Ayog have no financial role. They are only policy guide maps for the government.

Industrial Growth during Plan Periods | India

Positive Features of Industrial Growth during the Plan Period:
The trend in industrial growth over about 60 years appears to be impressive.

During this period, both the pattern and the structure of Indian industries have undergone a significant change.

1. Significant Growth Rate:
The trend in industrial production in India shows a compound growth rate of 6 p.c. The growth rate for the period 1951-55 was 5.7 p.c., 7.2 p.c. in 1955-56 and 9 p.c. in 1960-65. Thus, from the 50s to the mid- 60s, there was a significant acceleration in the industrial growth. It declined to a very low level around 3.7 p.c. in 1966-70. This period was marked by recession in Indian industries.

However, industrial production started picking up after the mid-70s. Still then, the recovery was not high enough. The growth rate of industrial production was around 5-2 p.c. during 1975-83. The decade of 1980s, however, showed a remarkable growth of the industrial sector following liberalisation measures introduced in the mid-1980s, But the decade of 1990s did not augur well.

The early years of reform yielded unsatisfactory dividends as far as growth of the industrial sector was concerned. After responding to economic reforms with vigour and registering a robust growth rate of 12.8 p.c. in 1995-96, there had been a slowdown in industrial expansion since 1996-97 when growth rate decelerated to 5.6 p.c. against a growth rate of 13 p.c. in 1995-96.

Declining trend continued in 1998-99 with overall industrial production registering 4.1 p.c. growth during 1998-99.

Minor recovery took place in 1999-2000 when overall growth rate increased to 6.7 p.c. The position deteriorated again in the next year when trends in industrial growth and

by sectors also suggested an all-round slowdown in industrial activity in 2000-01 (2.7 p.c.) and 2001- 02 (2.8 p.c.).

Industrial growth rate, however, picked up in the Tenth Plan when the growth rate rose to 8 p.c. against the target industrial growth rate of 10 p.c.

2. Increase in the share of Industrial Sector in National Income:
The contribution of the industrial sector towards national income is rising continuously. Its share was 16.1 p.c. in GDP in 1950-51. It rose to 25.2 p.c. in 1990-91. This indicates industrialisation. Since then it is on the declining trend. It has come down to 24.9 p.c. in 2007-08.

3. Expansion of Public Sector:
Over the planning period, public sector has registered a phenomenal growth. The idea for giving emphasis to the public sector was to provide a firm base for setting up core industries like power, coal, steel, fertilisers, atomic energy and machine building in the public and to leave the rest for the private sector.

The Seventh Plan has, however, shown preference to the private sector. The Eighth, Ninth and the Tenth Plans, of course, have placed great emphasis on this private sector.

4. Strengthening of Industrial Base:
Besides these quantitative aspects of industrial growth, we also find large progress in strengthening the base of future industrial growth. From the very beginning of the planning period, basic and capital goods industries received utmost attention. Consequently, its performance in total industrial output and gross value added become remarkable as compared to consumer goods industries.

These industries are the base of industrialisation. Because of the strengthened industrial base including adequate building up of infrastructural facilities, other industries registered a better growth, particularly intermediate goods industries. This, of course, is not a mean achievement.

5. Modernisation:
India has now a large variety of industries producing goods of varied nature which shows the degree of modernisation. Some modern industries have really come up and they are competing effectively with the outside world. Modernisation is also evident in the field of technological and managerial skills.

This has reduced our dependence greatly on foreign experts and technologists. On the contrary, India is exporting trained personnel in relatively less developed countries.

6. Self-Reliance:
Another positive aspect of industrial growth is the attainment of the goal of self-reliance. We have achieved self-reliance in machinery, plant and other equipment. Today, the bulk of the equipment required for industrial and infrastructural development is produced within the country.

Negative Aspects of Industrial Growth:
Industrial growth in India has been exposed to certain undesired lines. These suggest the failure of industrial planning.

The most significant failure of industrial planning of India are:
(i) The structural retrogression in the industrial structure;

(ii) Expansion of large industrial houses and concentration of economic power;

(iii) Miserable performance of the public sector;

(iv) Under-utilisation of capacity; and

(v) Industrial sickness.

These negative aspects of India's industrial growth are presented below one by one.

1. Structural Retrogression in the Industrial Sector:
By industrial structure we mean interrelationship among different industry groups like consumer goods, intermediate goods and capital goods industries. At the initial stages of industrialisation, consumer goods industries predominated in the Indian economy.

As the pace of industrialisation quickened, consumer goods industries lost importance and capital and intermediate goods industries got prominence. This sort of structural change reflects industrialisation of a country.

India was on the road to industrialisation at the early stages of planning till 1965 when there was a remarkable expansion of basic and capital goods industries as compared to consumer goods industries. And the period after 1965 witnessed deceleration in industrial output for all types of industries, excepting consumer goods industries.

Within the consumer goods industries, durable consumer goods industries registered a high growth. Thus, Indian industries after 1965 showed not only poor growth but also reflected phenomenon of structural retrogression.

The situation continues to be almost similar in the 1990s and 2000s. Basic industries fared badly in 2005-06 when it struck a growth rate of 6.7 p.c. as against 10.8 p.c. in 1995-96. However, the year 2006-07 showed more than 10 p.c. growth of basic goods

industries. Intermediate goods industries showed a remarkable decline. However, growth of capital goods industries in 2005-06 was remarkable.

And, this upbeat continued in 2006-07 when capital goods industries recorded a growth rate of 18.2 p.c. Along with this pattern of industrial development, one finds an increase in import-intensity of domestic manufacturing industry as a consequence of liberalisation. Hence, a process of liberalisation-induced import substitution in the manufacturing sector has emerged.

2. Expansion of Large Industrial Houses and Concentration of Economic Power:
It is the large industrial houses which have flourished over the planning period. There were two monopoly houses worth the name in 1953-54. They were Tata and Birla. Over time, these two houses have not only grown in size enormously, but also 18 other industrial houses have come up very much with a menacing speed, despite legislative measures (say, the MRTP Act).

Growth of these industrial houses is definitely an impediment towards the establishment of a socialistic pattern of society. Another allied evil of the growth of large industrial houses in India is the concentration of economic and political power in their hands.

However, the objective of establishing a socialist pattern of society in India has been buried underground in the 1990s. No longer private monopolists are required to be controlled and regulated. They are given enough latitude to produce any commodity even with multinational corporations (MNCs).

Reduction of-concentration of economic power in the hands of a few private industrialists is no longer the objective of Indian Five Year Plans since destatisation policy has assumed a great proportion after 1991. The MRTP Act has been replaced by the Competition Act, 2002.

3. Miserable Performance of the Public Sector:
It is the public sector that must flourish to fulfil the avowed objective of the government being purshed since the launching of the First Plan. Its growth is phenomenal over the years. Still, then, its performance has come in for sharp criticisms.

It has failed to generate adequate resources for development. Following the introduction of New Economic Policy in 1991, the importance of the public sector in India's industrial planning has been pushed behind. On the contrary, what one finds is the privatisation of the public sector enterprises through a policy of disinvestment. However in recent years the performance of the public enterprises is not altogether bad.

4. Under-utilisation of Capacity:
A large number of Indian industries suffer from under-utilisation of capacity. However, the degree of utilisation of capacity differs from industry to industry and from year to year.

5. Industrial Sickness:
Along with under-utilisation of capacity, another phenomenon that marked the industrial scene in recent years is the growing sickness of Indian industries. In 1990, the number of sick industrial units was 2,21,097 The number rose to 2.50 lakhs in March 2001. Of these, slightly less than 2.50 lakh units were in the small-scale sector.

The growing sickness of industrial units is a major growth constraint. Since then, this trend has been arrested. In March 2003 the number of total sick units declined to 1.71 lakhs. It declined further to 1.31 lakh in March 2006. Of these, the number of small units stood at 1.26 lakh in 2006 and it declined further to 1.14 lakh in March 2007.

To sum up, India's industrial expansion over the plan period presents a mixed picture. Compared to the pre-independence level, industrial growth in the planning period is phenomenal. But, in the process, some undesirable elements have come out in recent years which have vitiated the industrial climate. Policy implication is, thus, equally apparent.

MNCS AND TRANSFER OF TECHNOLOGY

Throughout the history technological changes and transfer leading to mechanization and industrialization have led to economical change, innovation, increasing in the knowledge and skills as well as, from the industrial point of view, productivity (UNIDO/WBSCD, 2002). Also the transfer of technology by multinational corporations (MNCs) would help developing countries to have sustainable development as well as both preserve the environment and improve the quality of life for present and future generations (Hope, 1996). It has played an important role in shaping the society (UNIDO/WBSCD, 2002) and the development of the countries (Hope, 1996). Technological transfer involves a two-way relationship of sending and receiving technology between and among firms, industries and governments. However, the transfer of technology to a developing country depends on many factors including government, its economy, market, research and development as well as infrastructure of the country (Hoekman, et al., 2004).

The transfer of technologies by the MNCs to the developing countries brings in economic changes as well as fosters productivity growth. Though invention and creation processes remains the province of the developed countries. However productive knowledge as well as follow-on innovation occurs in developing countries. These processes effectively are the drivers for sustainable growth and change in developing countries (Hoekman, et al., 2004).

Technology is at the core of competition and development (Dhewanto and Umam, 2009). The transfer of technology by multinationals enhances a country's technological capabilities by providing product or process innovations or both. With manufacturing of new products and services as well as improving the quality of the existing ones it could lead to industrial up gradation of a developing country technical ability. Innovation could also lead to the establishment of more competitive industries that could in turn generate revenues for the host (developing) countries (UNIDO/WBSCD, 2002). For example, country like China attracts foreign direct investment (FDI) due to cheap mass production which was gradually established due to its innovation capabilities. Being fully aware of the threats, China took steps towards innovation. Innovation is considered the focal instrument of economic growth in both developed and developing countries. Developing countries can maintain its economic growth through its own innovation capabilities (Dhewanto and Umam, 2009).

Constant growth could be there with the creation of new products that expands the knowledge of the technology and products and in turn lowers cost of innovation (Hoekman, et al., 2004). The transfer of knowledge and skills is considered necessary for the adoption of new technologies in a developing country (Dhewanto and Umam, 2009). For an MNC there is a growing dependence on the knowledge and skills for a profitable utilization of the product. Therefore a firm may invest in the dispersion of productive knowledge and skills to its employees, to the local suppliers of the inputs needed in its production process and to the local customers who may have to be taught the new technology of using the firm's products effectively. The direct, in particular, impact is on the labour in the host country (Johnson, 2001). The transfer of the knowledge and skills to local suppliers and labours make up a base for technology spillovers (Chudnovsky and Lopez, 2003). This spillover in turn upgrades the existing knowledge and skills so as to ensure that the host country enjoys the true potential of the transferred technology (UNIDO/WBSCD, 2002). A highly skilled and knowledge based economy is a dominant feature in the 21st century so as to increase a developing country's growth and competitiveness (Dhewanto and Umam, 2009).

ECONOMIC REFORMS: New Economic Policy (NEP) (1991)

Liberalization

Liberalization is a method through which a nation lifts limitations on some separate individual ventures. This process of liberalization occurs when anything which used to be prevented is no longer banned, or when state laws are relaxed.

Merits

1. It can create jobs for many people.

2. It results in an increase in the competition and thus consumers get a good quality product at a lower cost.

Demerits

1. It affects the local shops.

2. It is a profit-oriented approach and not socially favorable.

Privatization

Privatization in general term refers to the transfer of a business, enterprise, or service from the public to private dominion and authority.

Merits:

1. The main motif of the privatized industries is to make more profit tus these companies are more efficient.

2. The efficiency of a firm in privatization is caused by the shareholders.

Demerits:

1. A natural monopoly befalls when the various effective number of firms in an enterprise is one.

2. Privatization produces private pools, such as water corporations and rail corporations. These need monitoring to check abuse of pool control of the corporations.

Migration is the demographic process that links rural to urban areas, generating or spurring the growth of cities. The resultant urbanization is linked to a variety of policy issues, spanning demographic, economic, and environmental concerns. Growing cities are often seen as the agents of environmental degradation. Urbanization can place stress on the land through sprawl; coincident industrial development may threaten air and water quality. In the eyes of many observers, rapid urbanization is also linked to problems of unemployment and the social adaptation of migrants in their new urban setting. Cities advertise society's inequalities in income, housing, and other social resources, whether these problems are new or just newly manifest in urban settings.

Most of the migration conventionally liked to these urban issues was seen as following a conventional pattern. In this policy brief I raise some issues about the nature of contemporary, migratory behavior, both for our understanding of processes of population redistribution directly, and for understanding some of the implications of that redistribution. Contemporary research is sketching the contours of this migratory behavior and the social adjustment that accompanies it. New research is beginning to shed light on the rate of migrant adaptation, on the connection between origin and destination communities through remittances, and the demographic structure and dynamic of refugee movements.

The New Migration?

Is there an evolving pattern of migratory behavior and composition that warrants a reconsideration of our prevailing models? The first round of migration models presumed that movement -- permanent movement -- was induced by prevailing wage differentials and economic opportunities. Thus one observed transatlantic migration from Old to New World as part of permanent population redistribution within and across generations. To be sure the emptying of the countryside in the 19th century made London, Paris and New York into huge urban agglomerations.

Consequences

Migration from rural to urban areas generates a series of concerns, including worries about environmental stress and social adaptation of the migrants themselves. Since migration feeds urbanization, and since urban growth is associated with industrial development (pollution) and land consumption, migration is often held culpable in environmental degradation. Although the link is there, it is not clear how strong that link.

Direct public policies regarding environmental conditions, the underlying infrastructure for transportation, and the national level of income may have much more to say about the amount of insult visited upon the environment than the amount of rural-urban migration per se. As income rises, so does consumption of consumer goods, transportation, and land. These all can lead to more pollution and sprawl in any country. But as the level of income rises so does the demand for a cleaner local environment, and so there is an element of feedback in all of this.

There is another demographic component of the comparison. It is useful to remember that a large fraction, maybe nearly half, of urban growth is generated just by natural increase of the urban population. Thus, stemming urbanward migration will not stem urban growth. This reminds us that in the absence of migration but in the presence of positive population growth rates, there is more "population pressure" in both urban and rural areas. Migration may be more implicated than its true demographic contribution would warrant. Not that theincreasingly intensive use of rural and quasi-rural areas can lead to soil erosion, deforestation, and the like. This might lead one to call for stronger emphasis on fertility reduction measures, but the demographic community seems somewhat agnostic about the empirical connection between population growth and environmental conditions.

What is the Labor Market

The labor market, also known as the job market, refers to the supply and demand for labor in which employees provide the supply and employers the demand. It is a major

component of any economy and is intricately tied in with markets for capital, goods and services.

The different Characteristics of labour markets are as follows:

A commodity market refers to a physical place where buyers and sellers of a particular commodity gather for engaging in transactions while a labour market is viewed as a process by which supplies of a particular type of labour and demands for that type of labour are balanced, is an abstraction.

Secondly, unlike a commodity market, the relationship between a seller and a buyer in a labour market is not temporary and as such personal factors, which can be ignored in a commodity market, become important in a labour market.

Thirdly, unlike a commodity market, in a labour market there is a lack of perfect mobility which gives rise to a diversity of wage rates for the same type of work and we do not find a normal wage rate to which the market rate naturally tends. In other words, labour market is essentially an imperfect market.

Fourthly, wage fixing is an essential characteristic of the labour market, where (in the absence of unions) the buyer of labour normally sets the price but in the commodity market, it is normally the seller who sets the price. In labour market the price that is set tends to be fixed for some length of time. Employers do not want wage rates to fluctuate with every change in demand and supply conditions.

Fifthly, the labour market is far more complex than the commodity market. It makes little difference whether a potato is sold in Calcutta or in Bombay to the seller.

The Labor Market

Estimates by the ONS in 2018 put the size of the UK labour force at 33.8m workers out of an estimated population of 66.1m. In 2018 (December), those in work totalled 32.48m , with unemployment at 1.38m.

The labour market includes the supply of labour by households and the demand for labour by firms. Wages represent the price of labour, which provide an income to households and represent a cost to firms. In a hypothetical free market economy, wages are determined by the unregulated interaction of demand and supply. However, in real mixed economies, governments and trade unions can exert an influence on wage levels.

Nominal and real nominal wages

Nominal wages are the money wages paid to labour in a given period of time. Real wages are nominal wages, adjusted to take into account changes in the price level. Most

workers expect at least an annual increase in their money wages to reflect price increases, and so maintain their real wages.

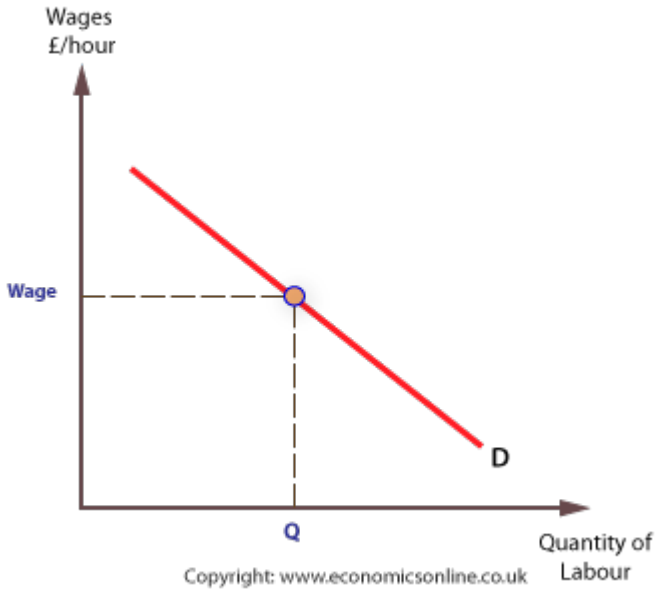
The demand for labour

The main factors affecting the demand for labour are:

The wage rate

The higher the wage rate, the lower the demand for labour. Hence, the demand for labour curve slopes downwards. As in all markets, a downward sloping demand curve can be explained by reference to the income and substitution effects.

At higher wages, firms look to substitute capital for labour, or cheaper labour for the relatively expensive labour. In addition, if firms carry on using the same quantity of labour, their labour costs will rise and their income (profits) will fall. For both reasons, demand for labour will fall as wages rise.



The demand for the products

The demand for labour is a derived demand, which means it is ultimately based on demand for the product that labour makes. If consumers want more of a particular good or service, more firms will want the workers that make the product.

Productivity of labour

Productivity means output per worker, and If workers are more productive, they will be in greater demand. Productivity is influenced by skill levels, education and training, and the use of technology.

Profitability of firms

If firms are profitable, they can afford to employ more workers. In contrast, falling profitability is likely to reduce the demand for labour.

Substitutes

The extent to which labour is indispensable also affects the demand. If substitutes, such as capital machinery, become cheaper or more expensive, the demand curve for labour will shift to the left or right. For example, if the price of new technology falls there may be a reduction in demand for labour.

The number of 'buyers' of labour

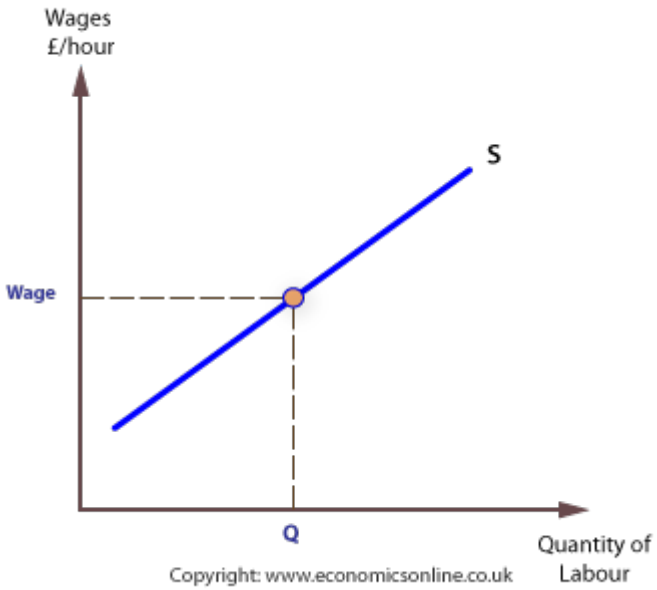
The number of buyers in a market can influence total demand in a given market. A single buyer in a market is called a monopsonist, and these are relatively common in labour markets. For example, London Underground is the only firm in the UK to employ underground tube drivers. In general, when a labour market is dominated by one employer the demand for labour is less than if there are many employers. In addition, there is a tendency for the wage rate to be lower in such markets, which is one reason why trade unions form, and exert pressure for higher wages.

The supply of labour

The labour supply is defined as the number of workers willing and able to work, multiplied by the hours they are willing and able to work. It is determined by:

The wage rate

The higher the wage rate, the more labour is supplied, which means the supply curve of labour will slope upwards. A worker's wage, along with any bonus, provides the main pecuniary (monetary) benefit from working.



Factors other than wages will shift the supply curve to the left or right. These factors include:

The size of the working population

The working population is the number of people of working age (16 – 60 for women and 16 – 65 for men) who are willing and able to work. The size of the working population is influenced by the retirement and school leaving ages, migration, and numbers staying on at University.

Migration

Migration can have a considerable impact on the labour market. Migrants tend to be of working age, and while the general effect is to increase the supply of labour at all wage rates, migration especially affects supply at lower wage rates. This is because migrants tend to come from low wage economies, with average wages often far below the minimum wage in the UK.

People's preferences for work

If people prefer more work, the supply of labour increases. Preferences can be influenced by a range of factors including changes in the 'cost' of working, such a subsidised childcare, and non-wage benefits (advantages) of working.

Net advantages of work

As well as the wage rate, decisions to increase or decrease labour supply are influenced by non-monetary (non-pecuniary) advantages, such as changes in working conditions, job security, holiday entitlement, promotion prospects, and other pyschological benefits of work. Improvements in these benefits will shift the labour supply curve to the right.

Work and leisure

For many, part-time work is an increasingly attractive option given the advantages of increased leisure. Early retirement is also a factor affecting labour supply.

An individual's decision to supply labour is greatly affected by the choice between work and leisure. Given that time is fixed, work and leisure are substitutes for each other.

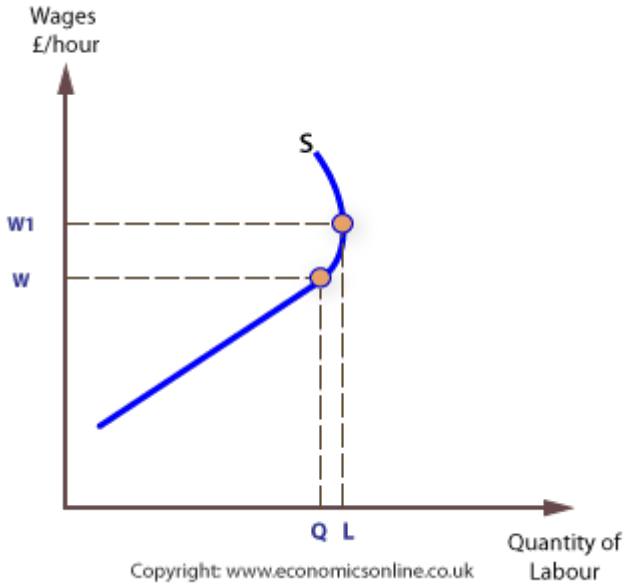
The choice between work and leisure can be affected by a number of factors, including:

- Age – older workers often gain more utility from leisure.
- Direct taxes – higher income tax rates may increase the utility of leisure and reduce the labour supply.
- Dependents – having children may increase the utility of work, and increase the labour supply.
- Non-work income – some individuals can retire from the labour market because they have company pensions which may be received before state pensions, which are available for men at 65 and women at 60. Non-work income can come in the form of cash benefits, such as the Job Seeker's Allowance, and benefits-in-kind, such as subsidised travel cards.

Individual labour supply

The supply curve for an individual cannot continue to slope upwards indefinitely. Labour market theory suggests the labour supply curve will initially slope upwards, and then bend backwards. Up to a wage rate of W1 in the diagram, the relative price of leisure for an individual increases and workers will look to switch from leisure to work. In other words, there is a strong substitution effect as wages start to rise. Hence, the

supply curve slopes upwards to point L.



However, beyond W1, the income effect begins to dominate and further rises in money wages, which boost real income, mean that less work is required to achieve the same level of real income. It can be assumed that beyond a given wage a worker will be satisfied with their level of real income, hence wage rates beyond this level means that fewer hours need to be worked. However, few workers are in a position to be able to reduce their hours given that they have fixed contracts.

Barriers to entry

Barriers to entry into the labour market, such as the strict requirement for qualifications, will make the supply of labour less than it would be with no barriers.

Trade Unions

A trade union is an organisation that aims to protect the interests of workers. Around 30% of UK employees are members of unions, with women more likely to be in a union than men. Union membership has fallen steadily over the last 20 years.

Unions can affect the supply of labour in three ways.

1. Firstly, unions can attract workers into the labour market because of the benefits of becoming a member. This will shift the supply curve to the right.
2. Secondly, unions exert control over the labour supply and can withdraw labour by limiting working hours or going on strike. A strike will shift the supply curve of labour to the left.

3. Thirdly, by influencing wages through collective bargaining the supply curve for unionised workers is more inelastic than one for non-unionised workers.

Tax and benefit incentives and disincentives

Tax and benefit rates can lead to increases and decreases in the effective labour supply. When income taxes are excessive and benefits too generous, a stay-at-home culture may be encouraged.

Labour subsidies

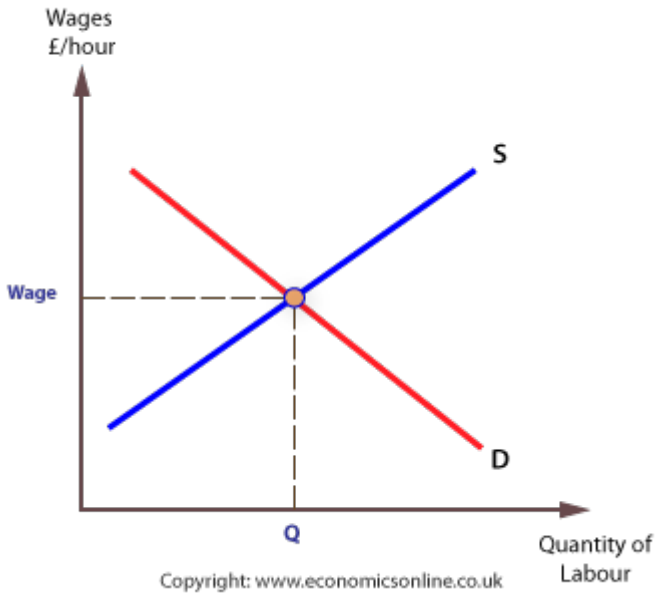
If the government gives a subsidy to workers to look for work, or to train, then the supply of labour will increase, and the supply curve will shift to the right.

The actual and potential labour supply

The actual labour supply includes those workers who are both willing and able to supply their labour, including the unemployed. The potential labour supply also includes those who, for one reason or another, are currently inactive.

The equilibrium wage rate

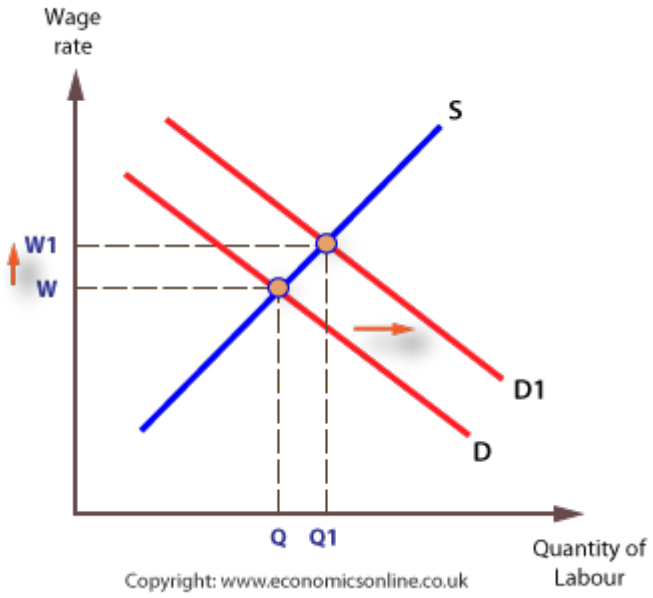
The market wage, or market clearing wage rate, is the wage that brings the demand and supply of labour into equilibrium.



The equilibrium wage rate can change following changes in the demand or supply of labour, such as:

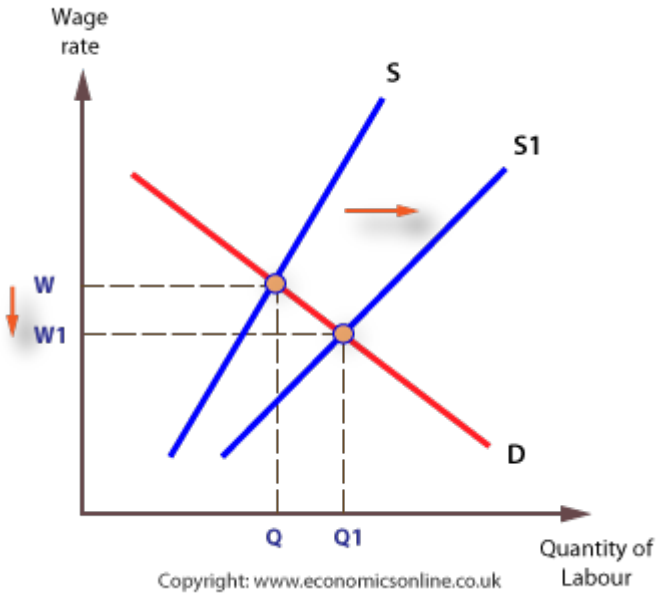
Labour productivity

An increase in labour productivity will shift the demand curve to the right, and increase employment (Q to Q1) and increase the wage rate wage rate (W to W1).



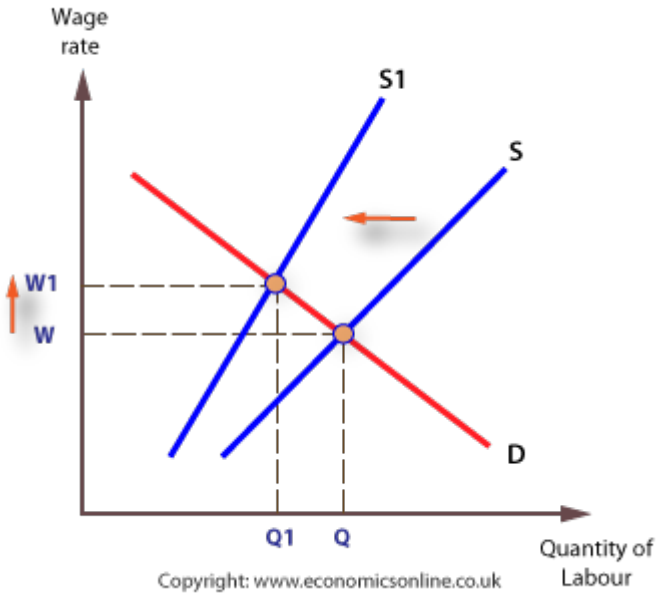
Preference for work

An increase in people's preference for work will shift the supply curve to the right, and increase employment (Q to Q10) but it would also reduce the wage rate (W to W1). Similarly, an increase in the net advantages of work will shift the supply curve to the right.



Trade union activity

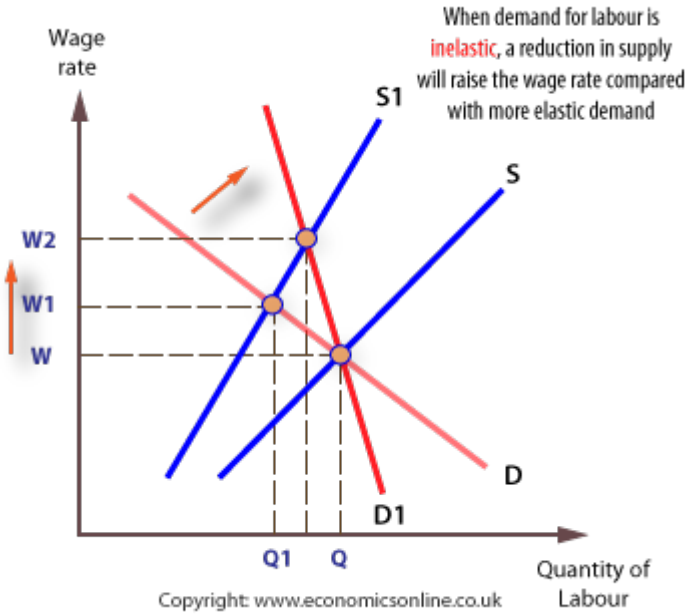
If a trade union withdraws labour through a strike, the supply curve of labour will shift to the left, and the wage rate rises. However, the level of employment falls, from Q to Q1.



The importance of elasticity

The effect on the wage rate and level of employment of a shift in either the demand or supply of labour depends upon the elasticity of the other curve.

For example, if the demand for labour is very inelastic, perhaps because there are no substitutes for labour, the effect of a strike is to raise the wage rate, but leave employment largely unaffected. The result is that workers will gain as a group, even though some individual workers will lose their jobs.



Wage differentials

If labour markets are very competitive, with identical workers and perfect mobility of labour, wages will move towards the same equilibrium level. However, in reality wages can differ greatly, even for the same job. A variety of different factors account for this, including the following.

Human capital differences

Some jobs require lengthy training and education, and this is reflected in higher wages. Human capital is the quantity and quality of labour and human capital development is the process of improving the quality of labour through education and training.

Human capital development, through education and training, is a considerable cost to individuals and firms, both in terms of time spent and resources used. Firms are aware that they must compensate for human capital development to attract the necessary skilled labour they require. Airlines, for example, know that they must pay skilled pilots significantly more than semi-skilled cabin crew to compensate pilots for the greater sacrifice pilots make during their lengthy education and training. In contrast, airlines only need to pay a relatively low wage to unskilled cleaners because there is little education or training needed, and therefore, little human capital development.

Over time, market forces will adjust the cost and benefit of education and training so that labour shortages in one area push up the wage rate, and it becomes more worthwhile to train for jobs in these shortage areas.

Formal education

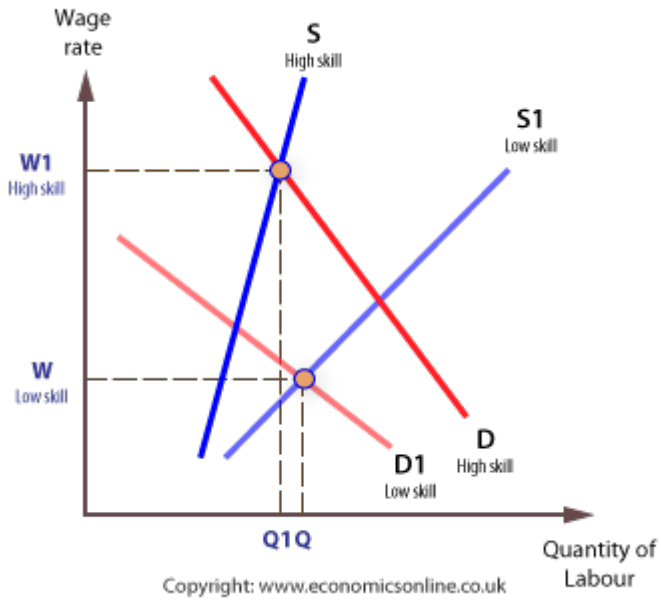
Formal education is an important determinant of human capital, and wages. Lifetime earnings vary directly with education and an individual who just obtains 'A' Levels, will earn much less, on average, than an individual with a university degree.

Wages and skills

The demand for skilled workers is greater than the demand for unskilled workers because the value of the output produced by skilled workers will be higher, and can command a higher price.

The marginal cost of acquiring a skill and improving human capital is greater, so the skilled worker's supply curve is to the left of the unskilled worker. The combined effect of the higher demand and lower supply is that wages for skilled workers are often much higher that for unskilled workers.

Because of the greater human capital required, skilled workers expect a higher wage to encourage them to supply more labour.



The widening pay gap

In the UK, the gap between the earnings of skilled and unskilled workers has risen in recent years, mainly for two reasons:

1. Technological change and the new economy have increased the productivity of many skilled workers. The application of IT is often more possible in skilled occupations compared with unskilled ones.
2. International trade and globalisation have had a significant downward impact on the pay of the unskilled. In contrast, the skilled, especially those in the service sector, are generally less adversely effected by global competition. The recent financial crisis has meant that the financial services sector has experienced difficulties in terms of pay, but the skills gap and resultant pay gap is unlikely to narrow in any significant way.

Discrimination

Wage levels can also be affected by job discrimination, which means that groups of worker are denied access, or have limited access, to jobs or to higher paid (elite) jobs. Workers can suffer discrimination because of their:

- Gender
- Race
- Disability
- Age

Discrimination is considered a labour market failure, and its effect is to reduce the supply of labour into a given profession, and drive up the pay of the elite workers. This leads to a relative increase in supply of workers available for the non-elite jobs and depresses their wages. Wage differentials can, therefore, be sustained by the practice of discrimination.

Gender and pay

Despite equal pay legislation, gender still affects wage rates. Even though the pay gap between men and women is closing, women still earn approximately 75 - 80% of the level of men.

Factors that might account for this gap include:

1. Possible differences in the level of human capital development, especially formal education because women may invest less in their own human capital development than men.
2. There may be productivity differences (in manual work), although this is clearly a minor factor in a service sector economy.
3. The number of hours worked, and career breaks will affect labour productivity. On average, women work fewer hours than men (35 hours per week, for women and 40 hours for men. It is estimated that this alone contributes around 12.5% of the difference). (Source: OECD)

4. Women are often crowded into low-paid jobs, with low skill levels.
5. Women are also often crowded into part-time jobs, with lower pay relative to full-time employees.
6. In contrast, women are often crowded out of higher paid jobs through discrimination, or are discriminated against in terms of promotion. Females often make up a very small percentage of senior jobs.

Female pay as a percentage of male pay has been rising over the last 15 years. Despite the differences that still exist, the gap between male and female pay is narrowing.

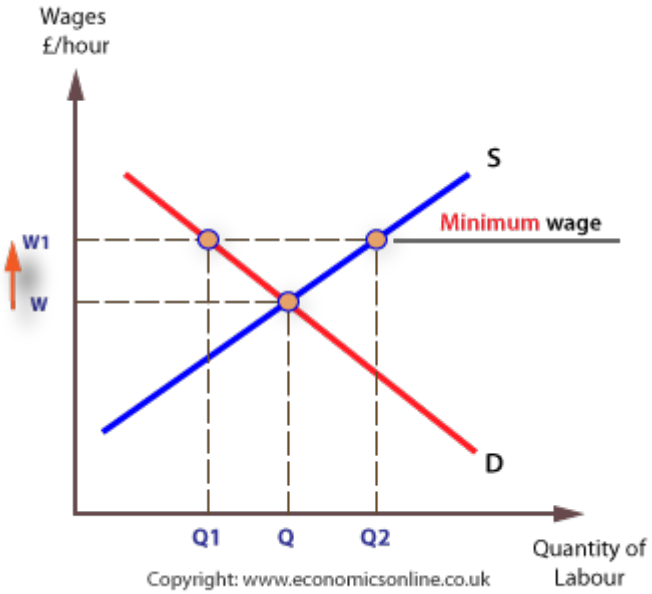
Possible explanations for this include:

1. The human capital of females is catching up with that of males because female performance in formal education has improved. Girls achieve higher GCSE and 'A' level grades and are rapidly catching up in terms of degree performance.
2. A decline in the impact of discrimination, due to the gradual impact of the Equal Pay Act, 1970, and other legislation.
3. More females are becoming employers, and this reduces the likelihood of discrimination.
4. Government support for equal opportunities initiatives, such as Opportunity 2000 (now called Opportunity Now.)
5. The growth of the service sector and decline in the manufacturing sector has also contributed to a narrowing of the pay gap. Changes in the structure of the economy may have benefited females in relation to males. The growth of the service sector has led to a relative increase in demand for service sector workers, which has also increased wages in parts of the service sector in comparison with declining relative wages in the manufacturing sector.
6. The introduction of the national minimum wage in 1997 had a proportionately bigger effect on female wages, compared with male wages.

The national minimum wage

The government can also influence the wage rate by setting a national minimum wage.

The effect is that demand contracts from Q to Q1 and supply extends from Q to Q2 creating a surplus of labour.



What is Unemployment?

Unemployment occurs when a person who is actively searching for employmentis unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequent measure of unemployment is the unemployment rate, which is the number of unemployed people divided by the number of people in the labor force.

In short unemployment is nothing but the demand for labor < supply of labour

Types of Unemployment: Frictional Unemployment

Frictional unemployment arises when a person is in between jobs. After a person leaves a company, it naturally takes time to find another job, making this type of unemployment short-lived. It is also the least problematic from an economic standpoint. Frictional unemployment is a natural result of the fact that market processes take time and information can be costly. Searching for a new job, recruiting new workers, and matching the right workers to the right jobs all take time and effort to do, resulting in frictional unemployment.

Cyclical Unemployment

Cyclical unemployment is the variation in the number of unemployed workers over the course of economic upturns and downturns. Unemployment rises during recessionary periods and declines during periods of economic growth. Preventing and alleviating cyclical unemployment during recessions is a major concern behind the study of economics and the purpose of the various policy tools that governments employ on the downside of business cycles to stimulate the economy.

Structural Unemployment
Structural unemployment comes about through technological change in the structure of the economy in which labor markets operate. Technological change such as automation of manufacturing or the replacement of horse-drawn transport by automobiles, lead to unemployment among workers displaced from jobs that are no longer needed. Retraining these workers can be difficult, costly, and time consuming, and displaced workers often end up either unemployed for extended periods or leaving the labor force entirely.

Institutional Unemployment
Institutional unemployment is unemployment that results from long term or permanent institutional factors and incentives in the economy. Government policies such as high minimum wage floors, generous social benefits programs, and restrictive occupational licensing laws; labor market phenomena such as efficiency wages and discriminatory hiring; and labor market institutions such as high rates of unionization can all contribute to institutional unemployment.