Agriculture and Planning

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* + **Land Reforms**
    - 1)Abolition of Zamindari
    - 2)Tenancy Reforms
    - 3) Land Ceiling
    - 4) Consolidation of Land
    - 5) Cooperatives
    - 6) Digitalization of Land Records
    - 7)LAAR 2013

* + **Agricultural Marketing**
    - Input Subsidies
    - Pricing policies MSP/ FRP
    - APMCs and 3 Farm Laws
    - NFSA & PDS

* + **Reference Material**
    - Class Notes & Handouts
    - Printed Material
    - Newspaper
    - Economic Survey

* + **Importance of Agriculture**
    - **1)** **Food Security**
      * Self-sufficiency of production means fulfilling the demand of the population.
      * It means non-dependency on imports.
      * Agriculture forms the backbone of the Economy.
      * Agricultures diversification ensures balanced nutrition in the body and thereby helps to tackle the problem of hidden hunger.
    - **2)** **Provision of Employment**
      * Especially labour-intensive employment.
    - **3)** Agriculture has both **backward and forward linkage with the Industry**.
      * Backward Linkage: Raw material e.g., Cash Crops.
      * Forward Linkage: Creates demands for industrial inputs; industrial goods & services
    - 4) **Agriculture creates a demand for various services**.
      * e.g., Value addition, warehousing, Financial services, Transportation Services, Infrastructure creation, etc.
    - 5) **Welfare Role**
      * Agriculture is a shock absorber in a slowdown economy.
        + e.g., During Covid Pandemic.
      * **As per PLFS data,** a total of 45.6 million jobs were created in India during 2018-19 to 2019-20 out of which there are around 70%  jobs in the agricultural sector.
    - **6)** **Poverty Alleviation**
      * 1% agricultural growth is 2 times more effective in poverty alleviation as compared to 1 % growth in non-agricultural sectors.
    - **7)** Contribution to Exports: Earning foreign exchange.
    - **8)** Agriculture's contribution to India's GDP (2020-21): 20.2 %

## Land Reforms

* + Requirements of Agriculture:
    - 1) Land
    - 2) Resources
  + Inequitable distribution of Land: Skewed ownership
    - Owners Vs Tenants

* + **Land Revenue System During British Rule:**
    - 1) Zamindari System/ Permanent Settlement System
    - 2) Ryotwari System
    - 3) Mahalwari System
  + Agriculture productivity was not improved under these systems.

**Features of Indian Agriculture at 1947**

* + It was characterized by absentee land ownership.
  + The tenants didn't have any relationship with the output value of the land.
  + Investment in agriculture suffered due to the insecurity of the tenure of the tenant.
  + The rise in population at the increasing pressure of population on land led to a decrease in the average size of landholdings.
  + 1/5th of agricultural families were landless laborers.
  + Among families who had land to cultivate, 38% of them has land less than 2.5 acres and this total constituted 6% of the cultivated area.
  + 59% of these families have land less than 5 acres which constituted 16% of the total cultivable area.

* + To correct the above issues, an Agrarian reforms **committee under the chairmanship of J.C.Kumarappa was constituted**which suggested land reforms.

* + The objectives of land reforms were:
    - 1) To **enhance the productivity of the land** by improving the economic conditions of the farmers and the tenants so that they have the interest to invest in and improve agriculture.
    - 2) To **ensure distributive justice** and to create an egalitarian society by eliminating all forms of exploitation.
    - 3) To create a system of peasant proprietorship i.e. land to the tillers.
    - 4) To transfer the income of a few to many so that demand for consumer goods can be created.

* + **The** **first land reform was the abolition of Zamindari.**

* + **Implications:**
    - 1) It ended the system of the exploitative system of rent collection.
    - 2) 63 million hectares of land was released from the hand of intermediaries.
    - 3) At least **20 million tenants** were brought directly in relation to the government.
    - 4) The **ownership of common property resources** like forests, lakes, ponds, etc. was vested in the state governments for proper planning and development.
    - 5) The wasteland amounting to some 6 million hectares was distributed among the landless.

* + **Challenges:**
    - 1) State governments took 4 to 9 years to formulate proposals and to pass from the legislature.
      * This gave enough time to Zamindars to prepare for its eventual implementation and they manipulated the land records by registering it under relatives' names, reclassifying land under different heads, etc.
    - 2) The zamindars went to the court against these legislations and in most cases, the court verdict was in favour of zamindars and declared the legislation unconstitutional.
    - 3) Most legislation allowed zamindars to retain ownership of Land if they themselves were willing to cultivate their land.
      * By using this provision, a large no. of tenants was evicted and the class of zamindars became the new class of landowners.
    - 4) The absence of written and updated land records led to a major failure of the implementation of these reforms.
    - 5) Many state legislation gave the right to tenants to voluntarily give up their tenancy and use by the zamindars whereas forces were used to evict the tenants and it was shown as voluntary surrender.

**Reforms in Tenancy**

* + **Issues faced by tenants:**
    - High rent and arbitrary upward revision of rent
  + **Tenancy reforms**
    - 1) Fixed rents
    - 2) Security of tenure
    - 3) Ownership rights
      * Most states allowed tenancy under their own conditions
      * Kerala: Banned tenancy
  + **Challenges:**
    - 1) How to Ascertain the value of crop products.
    - 2) Record of tenancy - oral deeds
    - 3) Awareness among tenants
    - 4) Poor grievance redressal

* + **Classification of Tenants**
    - **1) Superior tenants**
      * These are occupational and permanent tenants having the same right as owners.
      * They can sell, mortgage, or rent out the land.
      * The rights on the land are secured and can't be evicted against their will.
    - **2) Inferior tenants**
      * They are called tenants at will.
      * They have limited rights over the land and can be evicted anytime.
    - **3) Sub tenants**
      * They have leased the land from other tenants and are more insecure than inferior tenants.
    - **4) Sharecroppers**
      * They cultivate other people's land for a share in return.
      * They have no rights whatsoever.
      * There was a need for tenancy reforms as the tenants were exploited by making them pay high rents which were often revised arbitrarily.
      * Also, there was no security of tenure provided to the tenants.
      * Under the tenancy laws of several states including Bihar, Himachal Pradesh, Karnataka, M.P and U.P banned leasing of agricultural land except by certain disabled categories of landowner so has to vest the land to the tiller.
        + States like Kerela, J&K banned agricultural tenancy altogether without any exception.
        + States like Haryana, Punjab, and Gujarat didn't ban tenancy but tenants after continuous possession of land for certain specific years acquired the right of purchase of land they cultivated.
        + States like Bengal, Odisha, Tamil Nadu, and Andhra Pradesh allowed leasing out of agricultural land without any exceptions.

**Reforms introduced:**

* + **1) Fixing the rent.**
    - C. Govt. passed a model law fixing the maximum value of rent to 20-25 % of the crop value.
    - Different state govt. had their own upper limits. e.g. Punjab Kept it at 40%
    - This reform was not successful due to a lack of awareness, no record of tenancy, and issues in ascertaining the crop value.
    - Further, a poor grievance redressal mechanism led to the failure of this reform.
  + **2) Providing security of tenure**
    - Central govt. passed a model law Secure Tenancy Act, 1951.
    - Based on this, the state govt. passed laws to provide protection against arbitrary evictions.
    - The laws defined the following:
      * Who are tenants?
      * Conditions under which the owner could continue cultivation.
      * The extent to which he can continue cultivation.
      * Conditions specifying voluntary surrender of the land by the tenant and
      * The compensation is to be provided in case of eviction.

**Challenges in its implementation**

* + The tenants could not prove tenancy due to a lack of written documents
  + There were massive evictions of tenants as the owners resumes cultivation.
  + The clause of voluntary surrender was exploited and tenants were forced to give away the tenancy.
  + There was no fixed formula for awarding compensation and often there were huge delays in getting this compensation.
  + Many states had a very narrow definition of tenants thereby excluding a large population from getting these benefits.
  + **3) Providing ownership rights**
    - The tenants who are doing cultivation on land for the last 12 years, should be given ownership rights but most of the state has not accepted.
    - Punjab, Gujarat, Bengal, Kerela, and Karnataka agreed to give these rights.

* + **Challenges:**
    - 1) Rent receipts
    - 2) Lack of ability to buy
    - 3) Willingly surrendered due to threat/force.
    - 4) Poor status of land records
  + As a result of these reforms, there were massive evictions of tenants and the tenancy market shifted underground.
  + The informal nature of tenancy led to the exploitation of tenants as they are charged high rents and are frequently rotated i.e. period of tenancy has shortened.
  + Also, as a result of fear of tenant occupancy, many owners are keeping their land fallow.
  + NITI Aayog has recently introduced a Model Tenancy Law to correct the imperfection in the tenancy market / rectify these mistakes.

**Land Ceilings**

* + 1) Distributive justice: Welfare provision in DPSPs
  + 2) Income-generating assets to the poor.
  + 3) **C. Hanumantha Rao:**  Small lands are more efficient for the socio-economic environment to generate employment.
  + 4) Participative development and inclusive growth.

* + **Why Land Ceiling is Problematic?**
    - 1) Poor Efficiency - No economies of scale.
    - 2) Disincentivising investments.
    - 3) Small landholders don't have the capacity to invest
    - 4) Boundary disputes will arise.

* + **1960-1972:**
    - **State governments came under various conditions which were become loopholes such as:**
    - Unit of application - family or individual
    - Extent of Ceiling
    - Exemptions
      * Priority of distribution
      * Compensation
  + **1973:**
    - Unit of application is family
    - Rationalization of Ceilings
    - Reduced exemptions
    - Place the laws under schedule 9
    - Retrospective applications of the law

* + **Challenges:**
    - 1) High levels of ceilings - Very less surplus land
    - 2) Corruption at the local level - misclassification of land and getting the benefits of exemptions.
    - 3) Poor land records - Incomplete and not-updated
    - 4) Benami transactions
    - 5) Quality of surplus land distributed/given is often barren or wasteland.
    - 6) Actual possessions of land were not given.
    - 7) Only 2 % of land redistributed was cultivable.
    - 8) Lack of political and bureaucratic will.
  + Jammu and Kashmir: Land redistribution was most successful.

**Land Consolidation**

* + The term consolidation of landholding refers to amalgamation and redistribution of fragmented land with a view to bringing together all plots of land of a cultivator in one compact block.
  + After independence, almost all states except Tamil Nadu, Kerela, Manipur, Nagaland, Tripura, and parts of Andhra Pradesh enacted laws for consolidation.
  + In Punjab and Haryana, it made compulsory
  + In other states law provided for consolidation was on a voluntary basis if the majority of landowners agreed.

* + **Challenges:**
    - 1) Poor state of land records.
    - 2) Ascertain the quality and fertility of the land.
    - 3) Sentiments value attached to the land.
    - 4) Redistribution - corruption - Poor quality of land was given to poor.
    - 5) Lack of motivation and training of the local bureaucracy.
    - 6) Inheritance laws further causes fragmentation of land.

**Cooperatives**

* + **Benefits:**
    - **At Input level:**
      * 1) Collective ownership of inputs
      * 2)Lowering the costs because of bulk quantity
      * 3) Access to credit will increase
      * 4) More capacity for technology
    - **At Farming level:**
      * 1) Sharing of farming techniques
      * 2) Better management of resources
      * 3) Adoption of new technology
    - **At output level:**
      * 1) Aggregation of produce
      * 2) Increase of Bargaining power and thereby better realization of prices
      * 3) Access to storage capacity and transportation to Mandis.
      * 4) Access to new markets such as options of exports.
      * 5) Getting the benefits of the government.
      * By 1969, we have only 8160 societies covering 4.2 lakh hectares of land which was just 3.8 % of the cultivable area.

* + **Challenges:**
    - 1) Lack of leadership.
    - 2) Lack of management skills.
    - 3) Lack of trust among farmers.
    - 4) Poor motivation of the bureaucracy.
    - Structure Of Co-operative Credit Institutions 
      Co-operative Credit Institutions 
      Urban Co-operative 
      Structure 
      State Co-operative 
      Central Co-operative 
      Banks 
      Rural Co-operative 
      Credit Institutions 
      Structure 
      'Primary Agriculture 
      Credit Societies 
      State Co-operative 
      Agriculture and Rural 
      Development Banks 
      Primary Co-operative 
      Agriculture and Rural 
      Development Banks 

**Land reforms before 1991 Vs Post 1991**

* + Pre-1991: Focus on Productivity of Agriculture.
  + Post 1991: The focus is on Industry and Infrastructure.
    - The land here is a marketable resource.
    - Land Acquisition Resettlement and Rehabilitation, 2013.

**NEED FOR MODERNISATION OF LAND RECORDS**

* + Land Records in India are**old, insufficient**and not duly updated
  + The manual system of record keeping is opaque susceptible to manipulation and hard toward Minister
  + We have a **presumptive land titling system**where the registration of deeds and documents as provided in the Registration act are treated as **proof of ownership**. The state does not provide a conclusive land title.
  + Land records in India are maintained in Different departments such as the **Survey department, Registry department and Revenue department**
  + There is **No Coordination**among the three thereby leading to poor land records management system.
  + The system has created **huge inefficiency** in the land market burdened the court due to the conflict on Land Titles.

* + **Conclusive Titling-**It is based on 4 principles:-
    - A single agency to handle all land records.
    - The Mirror principle that is at any given moment the land records mirror the ground reality.
    - The curtain principles refer to the fact that the record of title is the true depiction of ownership status. The Mutation is Automatic following registration and there is no need for probing into past title transactions as the title is the conclusive proof of ownership.
    - Title Insurance - This refers to the fact that the title is guaranteed for its correctness and the party concerned is indemnified against any laws arising out of inaccuracy in this regard.

**FEATURES OF DIGITAL INDIA - LAND RECORD MODERNISATION PROGRAMME**

* + Computerisation of all land records including records of rights, Mutation Data and other land attributes data. This includes digitisation of cadastral maps, integration of textual and special data
  + The survey, Re-survey and updating of the survey and settlement record using Modern technology options such as GPS, High-resolution Satellite imagery
  + Computerisation of Registration
  + Moder record rooms, Land Record management centres at the Tehsil level.
  + Core GIS village Base Index Maps which will integrate 3 levels of Data- one is spatial data; survey of India maps; Cadastral maps from Revenue department
  + Legal changes include an amendment to Registration Act and model laws for Conclusive Titling.
  + Recently, a **Unique Land Parcel Identification Number** has been introduced for all land records. Also, a **National Generic Document Registration System** has been introduced under this programme.

**LAND ACQUISITION**

* + **Land Acquisition**, **Rehabilitation and Resettlement Act 2013**
    - **The Term Public Purpose** has been clearly defined under the Act
      * This includes Projects such as National Security and Defence; Projects for Housing for Low-income Groups; Etc.
    - **Consent**- No consent is required if government acquires land for the Public Project. If the land is acquired for Private companies consent of 80% of the affected families is required. In the case of PPP projects, at least 70% of the Affected families should give consent
    - **Compensation** under the act owners of the acquired land shall be given the 4 times of Market Value in Rural Areas and Twice in Urban Areas.
    - **Social Impact Assessment-** A comprehensive study on the nature and extent of likely social impact on the affected families would be carried out by Independent agencies. The final report will be put down in the Public domain for Public Hearing and Consultation. This ensures that there is a free prior informed consent of the Landowners.
    - Every Land Acquisition Project should have a resettlement and rehabilitation award
    - Multi cropped irrigated land cannot be acquired, the state government would be specifying the limits in case it is necessary to acquire this land.
    - In case of Acquisition of Fertile lands and in an equal amount of wasteland or barren land has to be brought under Agriculture.
    - To Adjudicate matters arising out of Implementation of the law, the state government will establish a LARR authority.
    - The Act gives the people a say in Land acquisition and makes the process more Participative, Humane and transparent
    - It attempts to put an end to the forcible acquisition, enhance compensation to landowners, resettle and rehabilitate the families and give people the decision making powers in the acquisition
    - However, they can take up to entire process up to 4-5 years to complete and pose direct and indirect costs on developers
    - Direct cost is what developers pay as compensation and for resettlement and rehabilitation
    - The indirect cost is what developers pay to carry out procedures manage multi-level bureaucracy, as well as the revenue, is forgone due to the time taken to acquire land.

**REFORMS- POST 2014**

**Amendment to the Land Acquisition Act**

* + To make it easier for the business players several amendments to the Act were introduced.
  + Exemption of five categories of land use from the consent provision and social impact assessment
    - Defence
    - Rural infrastructure
    - Affordable housing
    - Infrastructure.
    - Industrial corridors.
    - Multi crop irrigated are can now be acquired without any provision of equal land to be brought under cultivation. The above five categories are exempted from the provision of equal land to be brought under cultivation.
  + **However, the amendment failed due to political backlash.**
    - Now state governments are amending their own laws and also using the old laws for land acquisition to bypass these LARR 2013.
  + **NOTE- Land Acquisition Comes under Concurrent List.**

## AGRICULTURE

**Green revolution**

* + **Background of Green revolution**
    - The earlier effort was wheat and rice zones but production did not increase.
  + **First FYP 1951-56**
    - Massive investment in infra in Agri
    - Large dams, irrigation facilitates
    - Road infrastructure
    - Storage facilities and weighing infra.
  + **However, these measures were for the long term goal of enhanced production,**
    - Hence, we had to import food grains and industrial material in 1957 hence faced a BOP crisis in 1957.
  + 1958 Government approached the Ford foundation to get suggestions about how to increase production.
  + 1959 Ford foundation came out with reports and primary recommendation from ford foundation was to use technology and capital in Agri for improving the production
  + In 1960 government came out with **an Intensive area development program (IADP)**
  + Seven districts were pricked from seven states and the government gave capital, technology.

* + **Under IAAP** – Intensive Agriculture Area program to 114 districts.
  + Ford foundation brought seeds developed by Norman Borlaug in Mexico created HYV seeds of wheat up to 4 times increase in the production.
  + HYV program is known as the green revolution.
  + Other HYV seeds were Maize, Bajra and Jowar.
  + **GR was a technological reform and not institutional or structural reform**.

**Positives of Green revolution**

* + Abundant production : Mainly of wheat and rice. This ensures food security.
  + Production methods are being extended to other crops like horticulture crops.
  + Diffusion in areas: Regional spread of rice and wheat. For example, West Bengal and Bihar were traditional rice-growing areas and now shifted to Punjab, Haryana, etc.
  + Increased employment especially the labour required for crop production.
  + Prosperity in the regions and decline in poverty as the marketable surplus increases.
  + Industrial growth as due to the prosperity of the farmers, the demand for goods and services will increase. Also, the demand for inputs like fertilisers, machines, etc will increase and thus leading to industrial growth.

**Drawbacks of Green Revolution**

* + Regional inequality as the Eastern delta, desert area(dryland agriculture), coastal regions, hilly regions, north-eastern India was neglected.
  + Interpersonal inequality - Small farmers were left out as this type of agriculture requires intensive inputs, mostly the rich farmers benefited.
  + Crops inequality - Only crops like wheat and rice were focused while pulses, oilseeds, etc were neglected.
  + Ecological degradation : Loss of soil fertility leading to desertification, groundwater depletion due to excessive exploitation, pesticide abuse has harmful impacts on human and animal health, increasing salinity in the soil, the release of methane emission from rice cultivation leading to global warming.
  + Institutional and structural reforms neglected: No more talks of land reforms, infrastructure creation as most of the government money is used for subsidies and there is a lack of capital expenditure.

**Agricultural Marketing**

* + It is the study of all activities agencies and policies involved in the procurement of farm inputs by the farmers and movement of agriculture products from the farms to the consumers. It includes procurement, collection, grading, storage, processing, transportation, finances and selling of the agricultural produce.

* + **Objectives of an efficient marketing system**
    - To enable the farmers as primary producers to monetise their produce and reap the best possible benefits.
    - To provide facilities for lifting all the produce, the farmers are willing to sell at a price incentive.
    - A market provides the farmer with relevant demand linked information on desired quality, standards and specifications of the produce.
    - An efficient marketing system reduces the price spread between the primary producer and the ultimate consumer.
    - It makes available all the products of farm origin to the consumers at reasonable prices without impairing the quality of produce.
    - It generates a need for investment in modern supply chain infrastructure and suitable information technologies across the full range of farming practices.

**Government interventions**

* + Government intervention could be in the form of : **Input** **subsidy;  Pricing support(MSP); Regulation of Markets(APMCs); PDS.**
  + **Input subsidy**
    - Subsidies are transfer payments from the government which means it is a one-sided payment where there is no exchange of goods and services in return.

* + **Need for subsidies in agriculture:**
    - Farm subsidies cushion the pain of structural transformation, that is, the decline in agriculture income share is faster than its decline in employment share which is a substantial disparity in workers’ income and productivity across sectors.
    - To increase the application of inputs that will help increase the production in agriculture.
    - To guard against price fluctuation, for instance, an increase in production can lead to an increase in supply which will reduce the prices and disincentivise further production.
    - The subsidisation of inputs can positively influence the acceptance of new technology.
    - Input subsidies can have a moderating effect on food prices and can help control food inflation.

* + **The negative impact of subsidies:**
    - It incentivises mismanagement as the inputs are available at low/no costs.
    - The exploitation of resources. For example- Groundwater in Punjab.
    - Compromises capital expenditure as the government is already spending money on subsidies.
    - Huge burden on the government and also it is difficult to take subsidies back once they are introduced due to political reasons.
  + **Types of subsidies**
    - **Direct subsidy**
      * The direct subsidy is given in the form of cash transfers. Example- PM KISAN: Rs 6000/annum is given to all landholding farmers
    - **Indirect subsidy**
      * Getting a subsidy in-kind means the government is giving a subsidised product. Example: Power subsidy, fertiliser subsidy, insurance subsidy, loan waivers, etc.
      * **Problems with indirect subsidy:**
        + Corruption is present. There are a lot of leakages where the product is directed to other users. The major cause of leakage is the existence of two prices for the same product. Examples- As per Economic Survey, around 40% of subsidised fertiliser bags were diverted to Nepal and Bangladesh, Credit taken for agricultural purposes is used for other purposes, Electricity theft in the power sector, etc.
        + Rich and influential farmers get most of the benefits while the small and marginal farmers are left behind.
        + The administrative cost incurred in procurement, storage and transportation of the product to the last mile is huge.
        + Efficiency effect - It impacts the timing of delivery. For example, the government recently increased the subsidy on a fertiliser called **Di-ammonium Phosphate(DAP),**however, it is of no use if the fertiliser does not reach the farmer on time.
        + Constraints the freedom of farmers as it is limited to certain products and leaves no choice for the farmers.
    - Therefore, direct subsidies are more efficient and beneficial than indirect subsidies. However, they also have certain challenges.
      * **Challenges of direct subsidies:**
        + Purpose can not be controlled and it is up to the beneficiary to utilise the money as they like. For example - The subsidy can also be spent for consumption purposes and on activities like gambling, drinking, etc.
        + Identification of beneficiaries is a challenge- both exclusion(the eligible persons are left out) and inclusion errors(ineligible persons are included).
        + Financial infrastructure and poor financial literacy is also a major challenge. Online scams and frauds are quite common.
        + Difficulty in cases of broken supply chains. The beneficiary has the money but is unable to utilise it as the required resource is not available.
        + Inflation is a big challenge. If the direct subsidy is not linked with inflation, then the actual value delivered to be beneficiary decreases over a period of time.

* + **Fertilizer subsidy**
    - **1. Urea**
      * The selling price of urea is statutorily fixed by the government and the difference between the delivered cost of the fertiliser and the selling price payable by the farmer is given as a subsidy to the fertiliser manufacturer by the government of India.
      * The subsidy amount varies between manufacturers depending upon the production cost(the energy norms applicable to them).
      * Imports are canalised and only three agencies are authorised to import urea. The subsidy on imports varies with the consignment.

* + **2. Nutrient Based Subsidy**
    - Each kg of potash and phosphorus fertiliser receive a fixed rupee amount as a subsidy that is directly paid to the manufacturer.
    - The final price is unregulated and determined in the market.

* + **Problems with fertilizer subsidy:**
    - 1. Subsidies have lowered the relative price of urea with respect to other fertilisers. As a result, the application of fertilisers is heavily skewed towards urea disturbing the nutrient balance in the soil.
    - 2. The low subsidised price urea is smuggled to adjoining areas in Nepal and Bangladesh.
    - 3. As a result of low prices and illegal divergence, farmers are rationed, which means they are not always able to buy all the urea they want. The excess demand has resulted in black markets where the price is higher than the government set MRP. The implication of this is that the farmers receive a smaller subsidy than the expenditure made by the government.
    - 4. The subsidy amount differs between firms and neutralises the advantage of efficient firms. Apart from keeping inefficient firms to stay in production, the policy discourages capacity addition by the efficient firm(with respect to urea subsidy).
      * The key reform attempted here is the Aadhaar authentication of the farmers and linking it with the land records. This data can be used to provide direct benefit transfers to the farmers.

### MINIMUM SUPPORT PRICES (MSP)

* + **Need for pricing policy:**
    - It insolates the farmers from unwarranted fluctuations in prices caused by information asymmetry, lack of market transportation, and other elements of market imperfection plaguing the agricultural markets.
    - The guaranteed price and assured market are expected to encourage higher investment and adoption of modern technologies and agricultural activities.
    - It protects the consumer against excessive price rises.
    - A guaranteed price enables surplus production and helps in the marketization of that surplus.
    - It can also be used as a tool for enabling the diversification of crops.
    - MSP is needed because farmers are vulnerable to price fluctuations due to any reason both in the case of deficit and surplus yield.
    - If the yield is less, farmer incomes will be low, and food inflation will rise.
    - If the yield is high, the prices will crash and farmer profits will be eroded.

* + Food Corporation of India (FCI) was created in 1964 to procure grains from the farmers and run the Public Distribution System (PDS).
    - The government set up the Food Corporation Of India in 1964 to run its PDS operations and also maintain a buffer stock for natural calamities and other such disasters.
    - The buffer stock could also be used for stabilizing the price of food grains in the market.
    - In 1964, the government wanted to give certain price assurance to the farmers so that they are protected from market vagaries and the public demand is met affordably.

* + **MSP** - They are of long-term guarantee so that in the occurrence of a flood, the prices are not allowed to fall below the announced MSP.
    - The MSP was intended to serve as a floor price and an assurance against the risk that could arise from a sharp fall in market prices.

* + **Procurement prices:**
    - Fixed at higher levels as compared to MSP and are meant essentially for maintaining a buffer stock and for distribution under the PDS.
    - Normally the procurement price was higher than the MSP but lower than the market price.
    - This provided the farmers the choice to avail either the price at the market, or sell to the public agencies.
    - In the following years, the MSP itself became the procurement price and was also used as a market price benchmark.
  + The**Cabinet Committee for Economic Affairs**notifies the MSP for 22 crops including 14 for Kharif, 6 Rabi crops, and 2 commercial crops - Jute and Copra.
  + It consists of 7 kinds of cereal (paddy, wheat, maize, sorghum, pearl millet, barley, and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soybean, sesamum, sunflower, safflower, Niger seed), and 4 commercial crops (copra, sugarcane, cotton and raw jute).
  + In addition to that, MSP for toria and de-husked coconut is also fixed on the basis of the MSPs of Rapeseed & Mustard and Copra respectively.
  + The Agricultural Price Commission was set up in 1965 to decide the price policy for agricultural commodities.
  + The Commission for Agricultural Costs and Prices (CACP) recommends and then the Cabinet Committee of Economic Affairs (CCEA) finalizes the MSP for the crops.

* + **CASE OF SUGARCANE**
    - The payment for the sugarcane is done by the Mill owners to the farmers at Fair and Remunerative Price(FRP) announced by the Central government.
    - States announce State Advised Prices (SAP) which is usually higher than FRP.
    - While the FRP has a legal backing- Sugarcane Control Order 1966 under the Essential Commodities Act (1955), MSP has no statutory backing.

**ISSUES WITH MSP**

* + Increasing burden on the government as the MSP system was started as a support mechanism for emergency situations but now it has become a regular feature, and with the rising MSP and procurement costs, the burden on the government is increasing.
  + A higher MSP can lead to a rise in the general price levels of food commodities.
  + Distortion of cropping pattern as a farmer tends to produce crops with higher MSP ignoring the geographical suitability and other commercial factors.
  + Open procurement of rice and wheat leads to huge wastage of grains.  Most of the benefits of the system are taken up by the rich and influential farmers.
  + Also, the procurement system is not uniform across the states where some of the states corner most of the benefits.
  + Announcing MSP has become the primary tool of intervention in agriculture while other critical issues such as capital investment, development of irrigation facilities, and the need for changing landholding patterns have been ignored.
  + An over-emphasis on the price policy has distracted the attention from the important tasks which could have enabled a technological breakthrough in the Indian agricultural system.

**POSSIBLE SOLUTIONS**

* + **Price deficiency payment systems:**
    - The farmers are compensated for the difference between the government-announced MSP and the actual market prices which the farmer receives on selling.
    - The government is not involved in procurement or storage.
  + **Private Procurement and Stockist scheme**
    - Under this, the MSP linked procurement system is opened to the private sector where impanelled enterprises chosen through a transparent mechanism are allowed to enter the market for procurement at MSP

**REGULATION OF AGRICULTURAL MARKETS**

Need for regulation:

* + In the absence of a regulated market, the farmers were routinely exploited by traders and intermediaries.
  + These include secretive price setting, lack of information on demand and supply, adulteration and mixing, customary deductions, and delayed payments.
  + Also in the absence of any regulation, there is no counter-party risk assurance or a formal dispute resolution mechanism.

**Agricultural Produce Marketing Committee (APMC):**

* + The legislations were introduced in the 1960s in most states to regulate the trade between the farmers and the traders by setting up designated marketplaces.
  + The trade was to take place via licensed traders and commission agents.
  + These marketplaces were to be administered by a committee (APMC) that had representatives of the government, farmers, traders, etc.
  + In order to run the Mandis and build market infrastructure, market fees, taxes, etc were to be imposed.
  + The system of Mandi-based trade aimed to ensure that the farmers obtain the price determined by transparent auctions accompanied by ensuring fair terms of trade.
  + Licensed commission agents are present who broker the trade between the farmer and the trader for which they charge a fee.
  + They also help in aggregating the produce for the trader, help the farmer in getting a better price.
  + They can also provide temporary liquidity or finance to the farmer in certain situations be the last-resort buyer for the farmers. a degree of regulatory oversight in order.

**Issues with APMC mandis:**

* + Lack of access to the mandis as most states has not invested in building enough mandi yards.
  + For instance, the average area served by a regulated market is 1 per 117 square kilometres in Punjab, whereas it is 1 per 11000 square kilometres in Meghalaya.
  + Lack of market infrastructure in Mandis as only one-fourth of the markets have drying yards, cold storage facilities exist in less than one-tenth of the markets, grading facilities exist in less than one-third of the market, electronic weighing scales are available only in a few market places.
  + The nexus between the traders and commission agents often leave the farmer with little bargaining power and therefore leading to a poor price realization for the farmer.
  + The commission agents are known to charge high commissions for their services.
  + The committee is often dominated by a trader lobby that seeks to keep out the competition by restricting the number of new licenses issued, which leads to a non-transparent price discovery
  + The large variation across states in scope and stringency of APMC acts lead to fragmented markets, hence the commodity changes hands five to six times between the farmers and the end consumers which increases the price gap between what the farmers receive and what the final consumer pays.

**ELECTRONIC NATIONAL AGRICULTURAL MARKET (e-NAM)**

* + The e-NAM was launched in 2016 as a pan-India electronic trading portal for agricultural commodities.
  + It seeks to create a unified agricultural market by fostering synergy among the existing APMC mandis.
  + It provides services such as contactless remote bidding and e-payments which are both transparent and efficient.

**FARM LAWS :**

* + Farmers Produce Trade and Commerce (Promotion and Facilitation) Act 2020.
  + Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020.
  + Essential Commodities (Amendment) Act, 2020.

Subject number 33 of the Concurrent List of seventh schedule - Trade & commerce in, and the production, supply and distribution of –

(b) Foodstuffs, including edible oilseeds and oils.

Hence the central government could bring the bills despite agriculture being a state subject.

**FARMERS PRODUCE TRADE & COMMERCE (PRODUCTION & FACILITATION) ACT 2020**

* + This act aimed to create a legal framework for farmers to sell their produce outside of the existing Agricultural Produce Market Committees (APMC) mandis.
  + It allowed farmers to trade directly with traders and processors anywhere in the country, bypassing the mandi system and its associated fees and regulations.
  + This aimed to provide farmers with greater market access and potentially better prices for their produce.

**Benefits:**

* + The liberalization of the market will introduce corporate and market investment in the industry, and these investments can strengthen infrastructure, create a robust supply chain and modernize the sector.
  + An open market will lead to greater market access for the farmers, and an enhanced competition will potentially work to increase the prices for the farmers who are currently at the mercy of the middlemen.
  + It will create efficiency gains in the agricultural supply chain and these gains will be passed on to the farmers in the form of higher output prices.
  + This might lead to the growth of entrepreneurship in agriculture in the form of organized retail, food–tech companies, food–tech start-ups, etc.

**Issues with the Act:**

* + Dual regulation; as it creates a distinction between the APMC mandis regulated by the state government and free trade areas regulated by the central act, thus creating a regulatory maze.
  + The failure of a clear mechanism to record, collect and collate transaction data renders all the transactions in the area invisible, thereby making the entire marketing system opaque.
  + The absence of data is a serious obstacle in ensuring contestability and competition among buyers.
  + It can also hamper the creation policy on agricultural trade and food security.
  + In the absence of a thick market with many players transacting in the trade areas, it could the prices to the relative bargaining power of the farmer vis-à-vis the buyer.
  + The dispute resolution mechanism relies on a receipt that the farmers receive as proof of transaction, and on the SDM rather than the civil court. It is unclear how this mechanism will resolve inter-state disputes and disputes over complex issues such as quality, just on the basis of a receipt.
  + Without the interoperability of the trading platforms, it can lead to fragmentation of the market, rather than unification.
  + There are also concerns about the creation of infrastructure in these new trade areas.

* + The law was popularly referred to as APMC bypass law.

**FARMERS (EMPOWERMENT & PROTECTION) AGREEMENT ON PRICE ASSURANCE & FARM SERVICES ACT 2020**

* + This act created a legal framework for contract farming, allowing farmers to enter into pre-arranged agreements with buyers at a predetermined price for their produce.
  + It aimed to provide farmers with greater certainty about prices and market access, potentially reducing risks and improving income stability.
  + The act also defined a dispute resolution mechanism for any disagreements arising from these contracts.

**Contract farming:**

* + It is the agricultural production that is carried out as per an agreement between the buyer and the farmers.
  + It lays down certain conditions for the production and marketing of the farm product(s), along with quality standards and time limits.
  + There can also be production support in terms of farm inputs, land preparation, and technical expertise.

**Benefits:**

* + The availability of contract farming provides a price assurance to the farmers and protects them from the uncertainty of the market.
  + There is a possibility of the firms providing farmers with input materials as a part of the contract, thereby reducing their input cost, and also improving the technology.
  + It ensures a consistent supply of agricultural produce with the desired quality, at the right time and at a lesser cost for the private players.
  + It provides an opportunity to access new markets which would otherwise not be available to the small farmers.

**Issues with contract farming:**

* + It works only for niche commodities (e.g. broccoli) where the competing domestic market does not exist.
  + It creates a “placement effect” where businesses tend to be selective towards their operating geographical area often choosing areas with better infrastructure, availability of skilled farmers.
  + Contracting firms may choose to operate in clusters, agreeing on prices before the season, and committing to not out-price each other.
  + They can also divide the areas among themselves thereby limiting competition and choices.
  + As seen from global experiences, the initial cost-saving by the agro-business, but they are subsequently squeezed over time, a phenomenon known as agro-business normalization.
  + It also happens that businesses consolidate the farmers experiencing the benefits of multiple buyers initially end up a single buyer eventually.
  + Given the small size of landholdings, it is extremely challenging for the private players to directly engage with a large number of small farmers.
  + This will lead to the introduction of a large number of intermediaries to negotiate the trade, thereby increasing the cost and lesser prices for the farmers.

**ESSENTIAL COMMODITIES (AMENDMENT) ACT (ECA) 1955**

* + This act removed certain food items like cereals, pulses, oilseeds, edible oils, onions, and potatoes from the list of essential commodities.
  + The government argued that this would remove stockholding limits on these items, encouraging investment in storage infrastructure and promoting market efficiency.
  + However, critics argued that it could potentially lead to hoarding and price volatility, harming consumers.

* + Commodities like cereals, pulses, oilseeds, edible oils, onion, and potatoes were removed from the list of essential commodities.
  + Stocking of essential commodities could be regulated for conditions like war, famine, extraordinary price rise, and natural calamities.
  + The stocking limits were not to be applied to the installed capacity of a value chain participant and the export demand of an exporter.

**Background:**

* + All businesses need inventory to run operations.
  + The ECA 1955 was proving to be a hurdle for private expansion in the agricultural logistics market chain.
  + Stocking limits were applied very frequently, and it has tough penal provisions.

**PUBLIC DISTRIBUTION SYSTEM (PDS)**

* + The Public Distribution System was started as a wartime measure during World War 2 to ration the supply of food grains and distribute them at affordable prices.
  + It was further extended to more cities after 1943.

After independence, it was continued as a deliberate social policy with the objectives of :

* + Maintaining price stability.
  + Rationing during situations of scarcity.
  + Providing food grains and other essential items to vulnerable sections of society at reasonable prices.
  + To keep a check on the private trade of food grains.
  + To attempt socialization in the matter of distribution of essential commodities.
  + The central government is responsible for procurement, storage, transportation, and bulk allocation to the states.
  + The state governments have operational responsibilities including allocation within the states, issue of ration cards, supervision, and monitoring of fair price shops.
  + PDS was a universal and urban phenomenon till 1997.

**Revamped PDS**

* + It was launched in 1992 in 1775 blocks where area-specific programs were being run such as the drought-prone area program, desert area program, integrated tribal development program, and designated hill areas.
  + Under the scheme, the food grains were allocated to the states for revamped PDS blocks at lower prices as compared to normal PDS blocks.

**Targeted PDS**

* + In 1997, following the advice of the World Bank, the government of India introduced the Targeted PDS in order to curtail its food subsidy.
  + Targeted here means that the focus is on the poor and vulnerable sections of the society, thereby transforming the PDS from a general and universal system to a system with targeted food subsidies to below poverty line households.

**Features of TPDS:**

* + The households were divided into two categories- Above Poverty Line( APL) and Below Poverty Line( BPL).
  + In addition to this, a category of Antyodaya ( poorest of the poor) households was introduced in the year 2000.
  + TPDS had a two-tiered pricing structure for APL and BPL households
  + The size of the BPL population to be covered and the entitlements for the BPL population were to be decided by the central government.
  + The responsibility of the state government was the identification of the BPL families.
  + The end retail price was to be fixed by the state governments taking into consideration the margin of the Fair Price Shop owners, transportation charges, etc.

**ISSUES WITH TPDS**

* + **Identification of beneficiaries:**
    - Since the program is not universal, there are issues in identifying below poverty line households.
    - They are of two types-
      * **Inclusion errors**- There are many cases of non-eligible persons availing the benefits through fake ration cards.
      * **Exclusion errors**- There are many eligible families which are left out due to one issue or another.
    - Leakage and illegal diversion of food grains to open market, through a highly institutionalized network of traders and middlemen.
    - This is due to the price differential between subsidized grains and market prices.
    - Shanta Kumar Committee 2014 pegged the leakage at 40%.
  + Issues related to access to grains include:
    - Extra charges are being levied.
    - Issues related to the timing of delivery, less quantity being given, and irregular timings of the fair price shops.
    - Gender and caste discrimination in some regions.
    - The grains available at the PDS outlet are often of low quality.
    - A significant portion of the grains held in storage for a long time gets spoiled.
    - Due to the above issues, the TPDS has benefited only marginally as most of the food purchases come from the open market.
  + Above Poverty Line entitlements were almost completely leaked because:
    - They are charged at 100% of the economical cost, hence no cost incentive, that too for substandard quality grains.
    - They have social consciousness issues as for standing in line for much time for rationed quantity grains.
  + Some reforms which have been done are:
    - Many states have started computerization and GPS tagging to curb diversion.
    - Tamil Nadu has universalized PDS system, hence no incentive for diversion.
    - Chhattisgarh has computerized the entire supply chain and increased the coverage at around 90% and regular social audits ensure transparency.

**Hidden hunger**

* + It is the deficiency of micronutrients.
  + It considers both food security and nutritional security.
  + Due to less quantity and quality, even if someone gets the food grains, the nutritional levels remain low.

**NATIONAL FOOD SECURITY ACT 2013**

* + Access to food was made a legal right.
  + It sought to materialize Article 47 of the constitution which enumerates raising the nutritional level as one of the primary duties of the state.
  + The beneficiaries were only classified as Priority households and Antyodaya households. APL households are no longer entitled.
  + If no grains could be provided, the beneficiary would be eligible for a food allowance.
  + The allowance will be notified by the central government and will be paid by the states.
  + The ration cards are now issued in the name of the eldest woman of the family.

**Government Initiatives in agriculture**



**ONE NATION ONE RATION CARD**

* + The system will ensure that the NFSA beneficiaries can claim either a full or partial amount of their issued food grains from any fair price shop in India through their existing ration card.
  + It seeks to utilize Aadhaar connected biometrics for such seamless disbursal of food grains.

**Issues**

* + Implementation challenges:
    - Technical glitches: ePoS device functionality, poor internet connectivity in rural areas, and challenges with Aadhaar seeding create operational hurdles.
    - Interstate coordination: regarding beneficiary entitlements is complex
    - Exclusion of eligible beneficiaries: documentation issues, and non-Aadhaar cardholders
  + Concerns about equity and accessibility:
    - Split households : face difficulties claiming their allocated share
    - Migration patterns: Frequent migrant workers might struggle to access rations due to residency requirements
    - Data privacy and misuse

* + Identification of beneficiaries.
  + Timely nature of migration.
  + Fair price shops are allotted a limited quantity of grains.

**STATUS OF INDIAN INDUSTRY IN 1947**

* + India was an exporter of raw materials and an importer of finished goods.
  + The second world war had hampered British industrial output, so they seek to develop some industrial capacity in India.
  + Iron & Steel, Chemicals, and Cement were the industries that were boosted for war efforts.
  + The already existing plants were stretching their capacities and not many technological improvements for productivity.
  + The consumer goods industry mainly produced cotton textiles, jute, and sugar, but they were of a very small scale.
  + After independence, most of the cotton-growing areas went to West Pakistan, jute growing areas went to East Pakistan while the industries remained in India.
  + The main reason for industrial weakness was that, unlike basic goods and consumer goods industries, the capital goods industry was almost completely missing.
  + A very small number of players were present in basic industries while there existed much competition in consumer industries which mainly made low-quality products.
  + At the time of independence, the industrial sector was hence backward in nature.
  + There was a dominance of the consumer goods industry and a complete absence of the capital goods industry.
  + The industrial structure was also highly skewed where 30 % of the workers were employed in small industries(6-9 workers) and 42 % of the workers were employed in very large industries (more than 500 workers).

There was a very high capital intensity of the industry due to -

* + Shortage of skilled workforce( both in technical and managerial skills and availability of cheap capital due to the deliberate policy of the British government due to low-interest rates.
  + The British focus due to the world war was to extract maximum pit of the existing basic industries and no efforts on skilling were taken.

**Industrial conference December 1947:**

* + Concessions to the industries were demanded.

**INDUSTRIAL POLICY RESOLUTION 1948**

* + It introduced a form of institutional network for the development of the industry which is called the mixed economy model.
  + The government was allowed to take an active role in industrialization and the private sector was allowed but under the direction and regulation of the government.
  + The policy introduced a threat of nationalization whereby the existing industry in the private sector was subject to a takeover by the government after a performance review.

**Industrial Policy Resolution 1956:**

* + It provided a dominant role to the state in speeding the industrialization of the country.
  + Apart from the development of heavy industries and machine-making industries, the policy recognized the importance of small-scale industries.
  + Various support mechanisms such as tax breaks, reservation of products, quota limitations on larger scale industries, etc. were to be provided to the small scale industries.
  + The policy emphasized securing and balancing coordinated development in each region of the country.
  + The policy was to be implemented through a system of licensing and controls that was institutionalized by the Industries Development and Regulation Act 1951, Monopolies and Restrictive Trade Practices 1969, and Foreign Exchange Regulation Act 1973.
  + Further, the government passed the range of orders like the range of import and export controls, control of capital issues, price control, transport control, etc. to regulate all aspects of private sector industry.

**IPR 1956**

* + Prior to 1991
  + The public sector had a commanding role
  + This had to be controlled by various regulation
  + Quota, license raj, control orders

**Industrial Development Regulations Act 1956:**

* + Registration and licensing of industrial undertakings
  + Undertakings of all those industries, which were included in the schedule of the Industries (Development and Regulation) Act, 1951, were required to be registered whether they come under the private sector or the public sector.
  + Even if the existing undertakings intended to expand their activities, they required prior permission from the government.
  + Inquiry of industries listed in the schedule
  + Cancellation of registration and license
  + Direct regulation or control by the government if the government felt that particular industry was not being run satisfactorily
  + To inspire mutual confidence and elicit cooperation the workers, the government established Central Advisory Council and a number of Development Councils for different products

* + **MRTP Act- (monopolies and restrictive trade policies act)**
    - to prevent the monopoly- to promote competition
    - MRTP Commission-
      * Permission has to be taken for any mergers, acquisitions, appointments, etc.
    - Again it was controlled

* + **FERA 1973**
    - Exports were not allowed as there were reluctance that domestic availability will go  down
    - The dollar was heavily regulated
    - Foreign investment controlled

* + **The objective of the licensing system-**
    - The system was instituted to direct investment towards certain important sections and certain classes of goods
    - To correlate the supply and demand of goods in the domestic market
    - To control the competition in the economy and protect the consumers from exploitative practices
    - To ensure optimum utilization of capital

**1951-1991: Positive Developments**

* + Share of industries to GDP increased
  + The share of agriculture to GDP is decreasing
  + Shows structural changes
  + The huge growth in capital goods industries
  + Trickle-down effect was expected from developing industries

* + 5th five-year plan
    - The share of industrialization increased substantially
    - 7th-year plan : complete focus on the infrastructure industry
    - Higher borrowing --> FD --> Printing of money --> Inflation
    - There was the opening of the economy --> imports shot up
    - Commanding role by public sector
    - Well developed Public sector-led industrialization
    - Diversification

* + **Positive changes -**
    - Share of industries increased from 16.6% of GDP in 1950 to 27.7% of GDP in 1991
    - This is a sign of structural improvement as the share of agriculture declined from 54% to 29% in the same time period
    - Increase in share of capital goods industry from less than 20% in 1950 to more than 40% by 1991
    - increase in infrastructural development at a very high pace for example power sector generation increased from 2300 megawatt to more than 1,04000 megawatt
    - High growth in the metal industry
    - Increase in share of the public sector in total investment to the industry from less than 40% in 1951 to more than 65% in 1966 and finally settled at 55% in 1985
    - The public sector established itself as the commanding sector of the economy
    - Larger industrial diversification

* + **Problems**
    - Poor performance of public sector enterprises
    - PSUs suffered losses even in sectors that were not welfare-oriented
    - The poor target achievement by PSUs led to a shortage of industrial inputs which created hue scarcity in the Indian economy

* + Poor infrastructure -
    - The quality of infrastructure was substandard though the quantity of infrastructure creation was good it was not enough to maintain a pace with industrial and civic requirements
    - There was constant underutilization of capacity because of poor policy structure of govt
    - License quota permit raj
    - Poor quality of infrastructure and general scarcity of raw material in intermediate goods
    - The already industrialized states such as Gujarat, MH, TN captured most of the industrial investments
    - States like Bihar, Orissa, MP did not get any industrial investment though govt announced certain projects in these states the ecosystem for industrialization was never developed
    - The industrial sector remained skewed resulting in a missing middle which led to slow growth of entrepreneurship and poor development of employment opportunities
    - There was a huge industrial sickness as loss-making enterprises were not allowed to exit the market (restrictive exit policy such as IDPA)
    - These loss-making companies wasted a lot of resources and added to the total production cost

**Public sector undertakings (PSUs)**

* + Business units owned managed and controlled by the govt. with a view to maximizing social welfare and upholding public interest are known as PSEs
  + Featured -
    - Govt ownership and management
    - Financed by the govt.
    - Not guided by the profit motive alone as the major focus us to maximize social welfare
    - As they are run by govt policies they are held accountable by parliament
  + **Types-**
    - **1. Departmental undertakings**
      * They function under the overall control of the ministry
      * The finances and management are controlled in the same way as any other government department.
      * They are primarily used for the provision of essential services such as railways, postal services, etc

* + **2. Statutory corporation -**
    - Refers to such organization created by parliament or the state legislature by an act which defines its powers, functions, management pattern, rules and regulations for its employees and its relations with the govt dept
    - Example -
      * LIC, FCI, etc.
  + **3. Govt companies -**
    - Refers to those companies in which 50% or more paid capital is held by govt. and is registered by the companies act Is fully governed by the provision of companies act

* + **Potential role of PSUs-**
    - Promoting investment by directing for correct usage and by earning profits and reinvesting the profits for further development of the sector
    - To generate employment, also provide on the job training
    - PSUs assume the role of a model employer and have a moderating influence on employment and wage policies of the private sector
    - Price control by ensuring regular supply of goods and also produce them at affordable rates
    - Provide balanced regional growth
    - PSUs can open up units in areas where otherwise the private players may not invest, reduce regional inequalities
    - Industrial diversification and provision of essential goods. If the market is accorded primacy there could be relative underinvestment in sectors important for the majority of the population
    - To promote technological development as the scale of investment is beyond the capacity of individual investors

* + **Contribution of PSUs industrial developments -**
    - Contribution to capital formation
    - Public investment in industries increased from less than 20% of total industrial investment to more than 65% by 1966 and remained upward 50%
    - Most of the capacity building has been done by the public sector
    - Expansive development of infrastructure
    - PSUs have enabled a diversified industrial base
    - Reducing inequality by preventing the concentration of resources in hands of a few private players and also by providing good wages to workers, especially at the low grade
    - It has prevented the creation of natural monopolies in essential utility sectors such as railways, power sectors, etc.
    - A natural monopoly is defined as a situation where one firm is sufficient to meet all demand requirements and the technologies such that average cost  falls over a very long range
    - PSUs have contributed to savings and saved a lot of forex by import substitution of capital, basic and intermediate goods

**PROBLEMS OF PSU's**

* + **Poor pricing policy:** For pricing of goods two approaches were adopted
  + **Public utility approach:** where the prices are kept equal or lesser than the cost incurred. Essential services and welfare goods were to be priced using this approach. For example Electricity, Health, Education, Etc.

* + **Rate of Return approach:**
    - It's used for non-essential services where the price was kept more than the cost incurred example hotels, airlines etc.
    - However, most goods were priced as per the public utility approach even when they were not performing any welfare function.
    - Also, there was the poor realisation of user fees from the goods and Services produced by the PSUs.

* + **Continues underutilization of capacity**due to political interference which delayed decision making, absence of any strategic management, Poor infrastructure. The **Threat of 4 C's- Courts, CVC, CBI and CAG**also curtailed the decision making by the boards of PSU's.
  + **Poor planning and choice of projects**
    - PSUs often invested in projects without estimating their economic ad financial viability. Also, there were delays in the implementation of projects due to a rigid organizational structure.
    - This imposed a heavy cost on PSUs.
  + **The** **Issues with personal management:**These include political interference with the top management, huge vacancies throughout the organization, lack of control over the middle and lower grade employees. This leads to poor work culture with low productivity in the PSUs.

**BRIEF REVIEW OF IPR 1956**

* + **NEW INDUSTRIAL POLICY 1991**
    - NIP 1991 aimed to create an environment for a progressive economy making use of the market to foster Industrial growth.
    - It intended to dismantle the restrictive and regulatory systems and thereby unshackle the industrial economy from the cobweb of unnecessary bureaucratic control
    - The Allocation of industries among industries with respect to types of industries with respect types of industries, size of industries and nature of projects will be determined by market forces.
    - The policy liberalized foreign investment to bring in foreign technology.
    - The role of the public sector has been redefined and limited to only a few essential sectors of the industry.
    - The policy also focused on the growth and development of small-scale industries.

**The shortcoming of NIP 1991**

* + It **missed out on the comparative advantage**of the Indian industry that is **cheap labour.**
  + It **did not talk about employment generation** through industrialization.
  + It**overlooked** the linkages between industry and agriculture.
  + The industries that gained most from the policies such as petrochemical industries had little to do with agriculture.
  + The policy**relaxed the entry barrier** but **did not talk about the exit of units** from the market.
  + An exit policy is essential to reduce strain on weak units and also important for new entrance as no rational producer can be expected to enter a market which he may not be able to exit.

* + **Research and development**make theindustry innovative in terms of resource use, process and products.
  + The policy missed out on two key factors in this domain -
    - Size of investment and the sources from which these activities are to be financed.
    - Matter of intellectual property rights that is the protection of the invention in the form of patents, trademarks and copyrights.
  + There was **the complete absence of a suitable strategy** for exports.
  + The policy**did not define** **the location policy** clearly.
  + There were **no concrete measures or plan to decentralize industrialization** and develop the backward areas.
  + Therefore, industrial growth promoted by the policy was capital intensive, energy-intensive and import intensive.

### SMALL-SCALE INDUSTRIES

* + **The role played by Small-Scale Industries-**
    - To develop entrepreneurship in less developed and remote areas.
    - To provide industrial intermediate goods.
    - To provide consumer goods at affordable rates
    - It generates employment under low-capital cost
    - The domestic Small scale industry promotes import substitution thereby saving foreign exchange.

**Contribution of Small-sector in India**

* + **Contribution to industrial production -**The share in total manufacturing was 9 % in 1966, 35 % in 1991 and 45 % in 2019.
  + **Contribution to Employment-** As of 2018-19, 111 million people employed in MSME Sector
    - It has contributed significantly to the expansion of the entrepreneurial base and provided a diverse range of products.
    - There are 66.3 million enterprises in the MSME sector as of 2018-19
    - MSME Acted as an engine of economic growth. It **contributes 28 % to GDP** 2018-19.
    - MSME has Provided dynamic export growth as more than 40 % of export comes from the MSME sector.
    - It hasensured better mobilization of capital from regional areas and also ensured more equitable distribution of income thereby leading to regional development.

**Promotional and developmental efforts taken by the government**

* + 1948-cottage industries board
  + 1949 - **Traditional SSI Sector** - All India Handloom board, all India handicrafts boards and khadi and village industries board
  + **Modern sector** - SSI board, Coir board, Central skill board**.**
  + 1951 - SSI Came up with **small sector industry developmental organizations** for policy and institutional matters. New name - **MSME-DO**
  + 1955 -**National small scale industrial cooperation (NSIC)**
  + 1979 - **District Industrial centre** - one-stop solution for all kinds of support coming from govt such as technical, financial etc.
  + 1989 - **Small industries development bank of India (SIDBI)**for all credit-related matters for SSIs.
  + 2006 - **MSME act** to develop small sector enterprises.

* + **Classification of small-scale industries**
    - Based on the level of investment for small and micro industries.
    - MSME 2006 brought medium scale industries under investment-based classification.
    - **MSME classification is different for manufacturing and services.**
      * MSME amended 2020 - classification based on investment and turnover.
      * **MSME 2020 -**combined classification based on investment and turnover. It **means no distinction between manufacturing and services.**
    - **Classification -**
      * **Micro -**
        + Investment-<1 crores
        + Turnover-< 5 crores
      * **Small -**
        + Investment- < 10 crores
        + Turnover- < 50 crores
      * **Medium** -
        + Investment- < 50 crores
        + Turnover- <250 crores

**Issues faced by MSME**

* + **Lack of finance and credit** -
    - The informal nature of these enterprises restricted their access to formal financial systems. Firms in the sector often lack the collateral required to get a loan. Further, the sector faces the problem of operational credit due to delayed payments.
  + **Infrastructure constraints -**
    - The poor quality of Government infrastructure in terms of Roads, Power, etc. add to their logistic costs and also to their fixed cost of production.
  + **Lack of Technology-**
    - This is due to the poor access to finance, poor awareness of modern technology and the absence in the linkage between industry and academic institutions. Further, the policy of reservation of Commodities and the qualification based of Small scale based on investment creates a perverse incentive to remain small.
  + **Marketing and distribution challenges**
    - This is due to a lack of standardization and certification of the products in the sector. Poor awareness of Markets and lack of marketing skills.
    - There is a shortage of skilled technicians and professionals to work in the sector
    - Due to these factors, the MSME has not been able to integrate into the world market for competing at the global level and also have failed at providing good quality products to the larger industries and people in general.
    - As a result import intensity of Indian industry have increased significantly

* + **Missing Middle (Dwarf firms)**
    - **Reasons -**
    - Reservation policy for small-scale industry discourage modernization and growth of the sector which could have made them more efficient.
      * Policy discouraged the institutional and technical development that could have been pursued by govt to promote growth and development of the sector
    - Restrictive labour laws hampered the expansion and growth of industries to medium scale or large scale
    - Lack of skilling and poor education policies led to a poorly skilled labour force that restricted their expansion

* + **Impact of missing middle -**
    - Poor productivity and limited growth in the small sector  due to lack of investment and expansion
    - This led to greater inequality due to lower-wage per worker as compared to large scale industry and also due to lack of growth opportunities
    - Limited development of entrepreneurship and slower growth of labour force with industrial skill
    - It has impacted the employment generation capacity of the Indian industry as small industries provide employment in the initial years but stagnate with age
    - The missing middle is a critical bottleneck in the development and production of the mass consumption goods industry

* + **National manufacturing policy-**
    - **Failures-**
      * The objectives of the policy are mentioned in vague terms
      * There are no specific targets fixed for any sub-sector for domestic value addition
      * The policy objective to achieve 12 to 14% growth in manufacturing is flawed in its approach given the high inter variability in growth performance of the sector since 1991
      * There were various issues with NIMZ such as land acquisition, lack of incentives for industries, and loss of revenue for state govt if any tax breaks are given
      * The policy included almost all sectors for special focus without having any concrete plans  for any of these sectors
      * There was a lack of clarity and ease of exit for the sick industrial units

* + **Issues with industrialization in India -**
    - Infrastructure bottlenecks
    - Lack of availability, of quality roads, port infrastructure, railways, etc. increase the logistic cost for the industry (13-14% GDP) thereby compromising product competitiveness
    - The peak power deficiency in India is estimated to be 7-8%
    - A significant majority of manufacturing units has to be put up 100% power backups which raises their capital cost and also cost 40-50%  more than the electricity consumed from the grid
    - Regulatory delays and lack of transparency of complex regulatory structure has been established in India to deal with land acquisition safeguarding the environment, taxation laws, etc.
    - This increases the uncertainties and complexities for the industrial players
    - High cost and poor availability of credit
    - Normally manufactures in India face a real capital cost exceeding 4-5%  as compared to 1-2% for their competitors
    - Lack of a well-developed capital market further impacts the credit availability for the private corporate sectors
    - Exchange rate fluctuations
    - Increasing foreign portfolio investments and service exports have led to an appreciation of the rupee that results in the decline in revenue and profit for export-oriented industries
    - The FPI being volatile in nature can lead to depreciation of the rupee in case of huge outflows thereby increasing the cost of the imports
    - Liberalization of the Indian economy has resulted in a reduction of tariffs on imports of various goods which has increased the import intensity of manufacturing in India. Therefore the growth opportunity for the domestic industry has been reduced

* + Demand-side constraints -
    - Lack of poverty alleviation and high inequality has led to market segmentation in India
    - The large size industries cater to demand to the top 10% whereas the small size industries cater to the vast majority of poor households
    - The demand of these households is constrained by their low purchasing power
    - Therefore the small scale industry is trapped in poor quality production, outdated technology, and lower levels of profitability
    - Lack of demand, therefore, curtails the growth of the industry

**Infrastructural bottlenecks**

* + Issues with the discoms - home consumers even the agriculture consumers are getting subsidized electricity.
  + Transmission losses
  + Regulatory structure - Policy + structure is not stable.
  + Contract enforcement is not clear. Eg- In the recent conflict between Amazon and Future Retail - Future will not have any contract with reliance. Future Retail was facing losses.
  + Land acquisition
  + Environmental clearances - cutting down of forests, trees.
  + Yogi Scandal
  + The government has bought 35% stakes in Vodafone.
  + The policy is not consistent with the government.
  + Credit source - Banks, NBFCs, etc are the source.
  + The cost of credit is high in India because - there is high inflation in India.
  + Banks have to give high interest on deposits due to competition from Small Savings, Stock markets, etc. Therefore, it has to keep high -interest rate on the loans given to earn profit.
  + The capital market is not well developed.
  + Other sources : External Commercial Borrowings have a large share of external debt.
  + Higher yields are to be given on the private bonds as well to match up with the government bonds yields.

**Exchange rate fluctuations**

* + Appreciation hurts the importers. Appreciation happens when dollars are coming more in the economy.
  + Depreciation promotes exports.
  + After liberalization, the sectors are facing high competition from exports.
  + There is less domestic capacity - low quality and high-cost products.
  + So, we are dependent on imports. E.g. - Russia- defence imports, urea, natural gas.
  + Demand-side - a lot of people do not have money to pay. There is also high inequality.

**The main reason for the development of China, Japan, South Korea are**

* + Pick up certain sectors where there is a comparative advantage- cheap labour
  + Protection of certain sectors from imports.
    - Infrastructure, stable policies, relaxed taxation, educated workforce, health care.
  + There was a lot of competition in the market (export competition) which brings efficiency.
  + Natural resources
  + Technology - R&D - it invited foreign countries.
  + Also, the domestic capacity should be built. e.g.- semiconductors are being manufactured in India with the help of foreign currencies.
  + A lot of monopolies were there for Japan and South Korea. They were called “national champions.”
  + Chaebols in SK and Zaibatsu in Japan
  + In India, most of the monopolies are there in non-exportable goods.
  + Good regulatory structures are required.

## 

## 

## Planning

* + State of the economy@1947
  + History of planning
  + Rationale for planning
  + Planning architecture
  + 1st - 7th FYP - features/ analysis
  + 1991 reforms - LPG Reforms analysis
  + 8th -12th FYP - features
  + Role of Planning Commission- Analysis- Niti Aayog
  + Need for planning- today

**State of the economy@1957**

* + Agriculture -
    - subsistence agriculture,
    - Fragmented landholding
    - Middlemen- zamindars
    - Lack of technology- Primitive
    - Poor production and poor productivity
  + Industry
    - De-industrialized
    - Importer of finished goods
    - Exporters of raw materials
    - Skewed size
    - Capital intensive and not labour-intensive
    - Informal and unorganized.
      * Organized - more than 20 people without power supply; 10 people with power supply
      * Formal - which is registered, with EPFO/ ESIC
    - Social indicators - Health and literacy were poor.

* + At the time of independence, the Indian economy was overwhelmingly rural with nearly 85% of the population living in rural villages and deriving their livelihood from agriculture and related pursuits using traditional low productivity techniques.
  + The backwardness of the Indian economy is reflected in its unbalanced occupational structure with 74% of the population engaged in agriculture (53% contribution to GDP), 10% employed in industry(Contributing 17% to GDP), and 16% in services (contributing 29% to GDP)
  + Even with a large proportion of the population engaged in agriculture, the country was not self-sufficient in food and there was a huge shortage of raw materials for the industry.
  + There was an almost complete absence of basic industry (the raw material extraction such as mining, metallurgy, refining, etc), key industries (Physical infra industries- road, telecom, electricity, etc), and capital good industries (machine making, heavy electrical, heavy engineering, etc).
  + There was the dominance of informal and unorganized sectors in matters of employment generation.
  + There were low-quality jobs with poor working conditions, a lack of social security, and low wages.
  + Illiteracy was as high as 84% and the majority of children (60%) in the age group of 6-11 didn’t attend school.
  + Mass communicable diseases were rampant and in the absence of good public health system mortality was as high as 27/1000.
  + The Infant Mortality Rate (IMR) was 145/1000.

**Efforts made before independence for planning**

History of planning in India

* + ***National Planning Committee -*** 1938 with JL Nehru as the President. They used to publish the plans for the economic development of the country.
    - *Also talked about the modernization of agriculture.*
    - Features : state-controlled industries
      * ***Bombay Plan- 1944***
        + The strict control of the government over the key industries; to protect from outside industries
        + private industries - few consumer goods
      * ***Gandhian Plan-1944***
        + village and cottage industries - state control
      * ***People's plan- 1945***
        + MN Roy - nationalization of all sources of production.

* + **National Planning Committee -**set up under the leadership of JL Nehru in 1938. It produced a series of studies on different subjects concerned with economic development. It laid down the following recommendations -
    - The state should own or control all major industries and services.
    - Agriculture is crucial to draw up a scheme of national planning.
    - The planning should aim at doubling the standard of living of the people in 10 years.

* + **Bombay plan -** 8 leading industrialists including JRD Tata, GD Birla, Purshottam Das Tandon, etc conceived a plan of economic development, popularly known as Bombay Plan. The plan aimed to triple the GDP in 15 years. It argued for a mixed economy model where the government would take control over the basic key and heavy industries whereas the private sector would take charge of consumer goods.
  + The plan favoured heavy government control in all fields of business activities. It even argued for the nationalization of industries to reduce income inequalities.

* + **Gandhian Plan -**incorporating the policies of Mahatma Gandhi, a plan was formulated by SN Agarwal in 1944.
    - Its broad economic vision centered around rejuvenated villages, investment in agriculture, and growth of cottage industries.
    - It favoured tight state control over the economy.
  + **People's plan -**formulated by MN Roy in 1945.
    - It gave priority to agriculture and the nationalization of all production means.

**Difference between capitalism and socialism**

|  |  |
| --- | --- |
| **Capitalism** | **Socialism** |
| Price mechanism- market forces based on demand and supply | Price mechanism- state determined. The state does the planning. |
| Independent unit of production | Centralized authority |
| Private property | No private property |
| Inheritance | No Inheritance |

* + India chose a Mixed economy but heavily tilted towards socialism. (5 years plan)

* + **Reasons for adopting centralized planning**
    - Low levels of savings, so the state went for direct investment.
    - To prevent concentration of wealth- equitable distribution
    - Infrastructure development and regional development industry
    - To prevent market failure- due to public goods, externalities, market control, and information asymmetry.
    - Ideological influence, Nehru was tilted towards socialism.
    - A capitalist economy like the USA faced a great depression due to a lack of government intervention.  Therefore, we were inclined towards socialism.
    - Annie Besant and Dadabhai Naoroji were the earliest proponents of socialism in India.
    - Rajagopalachari favoured private ownership.

**The Rationale of Planning**

* + The basic constraint on development was the acute deficiency of capital which prevented the introduction of productive technology.
  + There was a requirement of equitable distribution of resources and prevention of concentration of wealth.
  + There was a need for infrastructural development and the development of industries with the intention of balanced regional growth.

* + **Planning was required to counter the different instances of market failure.** 
    - **These include-**
      * **Public goods-**are characterized by non-rivalrous and non-excludable consumption. e.g.- national defence, roads, etc.
        + If left to the market forces, these products are unlikely to be provided for.
      * **Externalities -**there are some costs and benefits in the provisions of goods and services which cannot be taken into account by the market system. E.g. - primary education, health care facilities, sanitation, etc. have positive externalities whereas drugs involve negative externalities. The market cannot be relied upon to provide for these goods and services.

* + **Market Control-**the dominant control of one or two suppliers in the market can lead to the exploitation of consumers. e.g.- in the case of monopoly, duopoly, etc.

* + **Information asymmetry-**Information asymmetry exists where one party has information and the other lacks it. In this scenario, the correct price cannot be ascertained according to the market forces of supply and demand.

* + **The tragedy of the law of commons-** given free hand private players may neglect the well-being of the society in the pursuit of profits. This pursuit can lead to overconsumption and depletion of common resources.

* + **Ideological influence-**the national leadership during this time was influenced by Fabian socialism. Also, there was a general backlash against the Laissez Faire system. Further, the success of the Soviet Union served as a very good example of state-led planning as it transformed from agriculture to an industrial powerhouse in a very short span of time.

* + Planning Commission- to give resources
  + National Development Council - Draft plans were submitted to the NDC.
  + Functions of the Planning Commission
  + Assess the resources
  + Formulate a plan - allocate the resources
  + Earlier the budget was classified into plan expenditure and non-plan expenditure.

* + **Evaluation and monitoring of the plan**
    - It recommends adjustments if required.
    - Think tanks - e.g.- ORF, etc comes out with solutions. The problems are given by the centre or state government. E.g.-Niti Aayog came with an analysis of one nation, one election.
    - Planning Commission became controversial because:
      * Intense lobbying is done by the ministries to get funds.
      * Various states were also trying to influence to get funds. State plans have to be in sync with the central plan.

* + **Finance Commission**
    - It is a constitutional body.
    - To discuss the tax revenue between the centre and the states.
    - Provide grants in aid to states. But, PC being an extra-constitutional body was also determining the grants in aid. The grounds were not very objective. Therefore, it was a bone of contention.

* + The role of the planning commission
  + To make an assessment of the material, capital, and human resources of the country and to make all possible efforts to augment these resources, formulate a plan for the most effective utilization of countries resources, determine the priorities and the stages in which plan should be carried out and determine the allocation of resources of each stage.
  + Determine the machinery necessary for securing the successful implementation of each stage.
  + Appraise from time to time the progress achieved in the execution of each stage and recommend adjustments for course correction.
  + Considering the prevailing economic conditions had to make recommendations, present reports as may be referred to it for advice by the central or state government.

* + **National Development Council**
    - At the national level, there was another body apart from the planning commission called the National Development Council which consisted of chief ministers of all states, members of the Planning Commission, and some union ministers.
    - The body was to give inputs to the planning commission for the formulation of a particular plan before it is placed in the parliament.
  + **Process of planning** 
    - Planning in India was to be an indicative exercise where the 5-year plans contained the growth targets for the economy as a whole and for major sectors, all of which were indicative in nature and since it did not translate into concrete productive directives of firms.
    - The plan also had non-quantitative targets for various aspects of social development such as education, health care, family planning, etc.
    - The implementation of the 5-year plan was to happen through annual plans which became part of the respective annual budgets.
    - The planning commission was to coordinate the development programs of the union ministries along with those of the state government and integrate them into a single national plan.
    - While the state budgets were independent, the state plans were not, though there existed independent state planning boards at the state level.
    - The final plan had to be approved by the planning commission.

### 5-year plan

* + **1st FYP:1951-56**
    - It was based on the Harrod Domar Model of growth­­ according to which national income growth is determined via rate of savings and capital-output ratio.
    - The capital-output ratio is the amount of capital required to produce 1 unit of output. In the longer run, the capital-output ratio signifies the productivity of capital.
    - The focus of the plan was on the development of infrastructure, especially transportation and electrification.
    - It also focussed on the development of infrastructure in agriculture in the form of irrigation support such as the Bhakra Nangal Dam, Hirakud, and Damodar Valley Corporation.
    - The targeted growth rate was 2.1% p.a. and achieved was 3.6%.

* + **Reasons for high growth**
    - High government investment in infrastructure resulted in the growth of the transportation and electricity sector and more than 7% p.a.
    - Steady agriculture growth at 3% p.a.
    - The rise in pent-up demand - which was earlier restricted by British policies of heavy regulation.
    - The low base effect is a lower output in the initial years giving a higher growth rate in the subsequent years.
    - The first FYP was more a plan of intention and less a plan of action.
    - The maximum allocation went to the transport and communication sector, then irrigation which included power, and then agriculture and allied activities.

* + **2nd FYP** 
    - **Nehru Mahalanobis model**
      * Major debate
        + Vakil- Brahmanand favoured promoting basic industries and other agro-based industries.
        + Mahalanobis was of opinion that heavy industries should be promoted (top-down model).
      * Mahalanobis model won the debate.
      * Public sector- commanding heights
      * Import Substituted industrialization- producing goods domestically which are otherwise imported in the economy.

* + **Benefits/ Reasons of import substituted industrialization**
    - Save forex reserves
    - Employment generation
    - Industrial Diversification
    - Avoid foreign control- in recent times, we are focussing on Atma Nirbhar Bharat.

* + **Problems**
    - Protectionism- no competition/ poor quality/ high cost production
    - High cost products- cheap imports in comparison to exports.
    - Capital intensive manufacturing without capital
    - Lack of technology as there was lack of resources (R&D)
    - Licensing and heavy control over sector.
    - Private sector given responsible of producing consumer goods which they will do using labour intensive techniques.
    - Target was 4.6% and we achieved 4.3% growth.
    - Allocations : highest transport and communication; Industry and irrigation and power.

* + **3rd FYP**
    - 1961-66
      * Self reliant and self generating
      * Constraint on growth
      * Capital goods - inputs- compulsory imports
      * Basic features were similar as 2nd FYP (Industry+ Agri)
      * Targeted growth- 5% p.a.
      * Achieved- 3.3% p.a.
    - **Why it failed?**
      * Agriculture slowdown- the production decreased. There were 2 major wars
      * Industrial slowdown due to poor availability of raw material - 1964- 66
      * Also, lot of resources were diverted to defence manufacturing.
      * High inflation in the economy - People purchasing power decreased. Also, there was shortage of goods
      * Private sector was nearly controlled.
      * External factors- wars+ food imports. We were facing BOP crisis.
      * In such circumstances, 1st time devaluation was done by the then PM Indira Gandhi.

* + **1951-66: Nehruvian period**
    - Planning Commission- established its mandate: Growth in stature

* + **Positives of the plans**
    - Diversified industrialization
    - Infrastructure development
    - Electricity generation
      * 1947: 2300 MW
      * 1965-66: 25,000 MW
      * 1991: 1,04,000 MW (104 GW)
      * 2021- 383 GW

* + **Negatives of the plans**
    - Agriculture production was poor- Dependent on imports. E.g.- PL 480
    - Poor quality grains
    - High cost- marketing, supply, distribution
    - Lack of poverty alleviation-Trickle down approach, lack of growth in the industry, sectors in growth, incomes will increase
    - No investment in anti - poverty programs.
    - Lack of forex reserves

* + The features of the 2nd FYP were continued.
  + The basic focus was on self-reliance.
  + Target- 5.6%, Achieved- 2.8%

* + **Reasons for failure:**
    - There were two wars - Indo-China (1962) and Indo-Pakistan(1965).
    - Balance of Payment crisis - Import of industrial goods and food imports, international aid stopped.
    - Failure of agriculture due to two consecutive droughts(1965-66).
    - Shortage of consumer goods due to heavy control over the private sector leads to inflation.
    - Industrial slowdown due to the control and command economy.

* + **Analysis of Nehruvian Period(1951-66)**
    - The first three FYPs come under the Nehruvian Period.

* + **Major successes**
    - Diversification of industry (From 6 major industries in 1947 to more than 1000 in 1966).
    - Robust infrastructural growth (Electricity generation from 2300 MW in 1947 to 25000MW in 1966).
    - High Resource availability via capital generation.

* + **Failures**
    - Lack of poverty alleviation. The trickle-down approach as originally planned failed to show results.
    - Scarcity and poor quality of production led to the emergence of black markets.
    - Food shortages
      * The management of forex
  + **Plan Holiday:**
    - The period from **1966-69** is known as the period of plan holiday.
    - Three annual plans were made for these years instead of an FYP.
    - New Agricultural Strategy for High Yielding Variety was taken up during this period.
    - Self-reliance was focused as international aid from the allies stopped.

* + **4th FYP(1969-74)**
    - It talks about the Green revolution.
    - It for the first time mentions the environmental sustainability
    - Target growth- 5.7%; Achieved- 3.3%

* + **Reasons for failure**
    - 1971 Indo-Pak war resulted in a huge influx of refugees.
    - Failure of agriculture - Agriculture was still Monsoon dependent and there were droughts.
    - 1973 - The oil crisis led to inflation in the economy.

* + **5th FYP(1974-78)**
    - This was the first FYP where the government acknowledged that the**trickle-down effect** was not working in India.
    - **Directed anti-poverty programs** were launched focusing on employment generation, poverty alleviation, and social justice.
    - **Minimum Needs Programme** was the first program launched under Directed Anti-Poverty programs.
    - 5th FYP was neglected in favour of **20 point program of Indira Gandhi.**

* + Target growth- 4.4% ; Achieved- 4.8%

* + **Rolling Plan**
    - 1978-80: where targets were revised each year.
    - 1978-79: Budget was the main document used for planning.
      * The plan tried to target employment and inequality.
      * A midterm and a perspective plan were also planned, but they didn't materialize.

* + **Analysis of planning from 1966 to 1980.**
    - This period from 1966 to 80 is known as **structural retrogression.**
    - This period is also referred to as the **Hindu rate of growth** by an economist as the overall rate of growth was low. The population was growing at the rate of 2-3% while the growth rate was near 3-4%.

* + **Reasons for low growth**
    - **Licensing system**
      * The very stringent licensing policy followed by the government created a strong entry barrier leading to low competition, thereby creating poor quality high-cost goods. Further, the licensing system delayed decision-making that discourage investment creating an artificial scarcity leading to inflation.
    - **Poor performance of the public sector**
      * In 1966 all public sector earned a profit at 3% of capital invested, in 1978 it earned a loss of 2.6% of capital invested.

* + **Rigid trade policies and restrictions on foreign investments**

* + **Foreign exchange regulation Act, 1973**
    - Foreign companies were not allowed to invest more than 40% in an Indian company.
    - No permission was given for external commercial borrowings.
    - Restriction on firms and individuals to transfer foreign exchange abroad.

* + **Restriction of imports**
    - Very high import tariffs. In the 1970s the average import duty was 250%.
    - Quantitative restrictions on imports. An outright ban on more than 3000 commodities.
    - Canalization of imports, that is, licenses were given to the traders for imports.

* + **Irrational taxation policy**
    - High tax rates discouraged economic activities. For example, Corporate income tax was as high as 84%.
    - Complex taxation with several slabs for direct taxes and numerous indirect taxes.

* + **Restriction on operational decisions of firms**
    - There was no pricing freedom, restriction on the source of raw material, poor exit laws, etc.
    - Rigid rules like MRTP discouraged investments as the firms had to take permission from the MRTP commission for any business decision.
    - This not only restricted the growth of firms but promoted rent-seeking and corruption.

* + **6th Five year Plan(1980-1985)**
    - Increased national income
    - Modernize technology
    - Poverty alleviation + employment + social justice(TRYSEM, IRDP, NREP)
    - Issue of capacity utilization of heavy industries.
    - Domestic energy resources such as renewable energy resources.
    - Targeted growth rate -5.2% and achieved 5.7%.

**7th Five Year Plan(1985-1990)**

* + Infrastructure
  + Reversal of Import substitution Industrialisation ----> Liberalised imports ---> Encouraged exports
  + Technological growth ----> Growth in the service sector -----> Outward orientation
  + **Agriculture** ---> Production has increased ---> Yellow Revolution ----> Oilseeds production
  + **Targeted growth rate** ---> 5.0% and **Achieved**---> 6.0%

* + **Reasons for Revival(1980s-1990s)**
    - Business-friendly policies of the government were introduced with the industrial policy resolution 1980 and IPR 1985
    - Various measures included raising capital limits regarding exemptions from licensing, reduced restrictions on imports, relaxation on MRTP limits, etc.
    - High growth in agriculture due to the spread of the Green Revolution, Yellow Revolution, and white revolution.
    - This induced income growth amounts large section of the people thereby increasing the demand for industrial goods.
    - Improved worker productivity due to enhanced skill level and training of the workforce.
    - The total factor productivity increased from -0.2%(1966-67) to -0.6%(1979-1980) to 3.4%(1989-1990)
    - Reform of taxation laws which included reducing tax slabs and introducing MODVAT(Modified Value Added Tax) and Rationalising the exemptions.
    - Very high public expenditure

**The 1991 Economic Crisis**

* + **Reasons :**
    - Very high fiscal deficit of the government.
    - In1981-82 it was 5.1% while in 1991 it was 8.4%
    - The internal debt increased from 33.7% to 49.7%.
    - Very high inflation, the wholesale Price Index from 6.7% in 1980 to 10.3% in 1990.
    - The CPI was 11% in 1990.
    - The reasons for high inflation were:
      * supply-side shortages and
      * monetization of deficits
      * High current Account Deficit due to increase in imports and poor exports.
      * 1.35% in 1980 to 3.69% in 1990.
    - The high amount of foreign loans especially short-term loans.
    - The external debt increased from 12% in 1980 to 23% in 1990.
    - External factors included the **Gulf war** which led to an increase in the price of crude oil(increasing import bill), further the disintegration of the Soviet Union hampered the exports thereby worsening the foreign exchange reserves of India.
    - In 1991, India was left with 1.2 Billion reserves (covering 1 week of imports) and was on the verge of bankruptcy.
    - It had to pledge gold to earn foreign exchange and tide over the emergency.

## The Reforms Introduced in 1991

* + **Liberalization:**
    - It means the simplification of the policies to ensure that there is larger participation by different players in various sectors of the economy and a better understanding of rules and regulations to improve efficiency.
    - The liberalization reforms included:
      * a. Industrial reforms: Delicensing, de-reservation for the public sector, pricing freedom, freedom in deciding the production method, supply of raw materials, etc.
      * b. Reforms in MRTP and FERA: They were gradually replaced by the Competition Act, 2002, and Foreign Exchange Management Act, 1999.
      * c. Liberalization in the external sectors included a reduction in import duties, liberalizing FDI, relaxing controls over the quantity of imports, moving to a liberalizing exchange rate management system, and finally to a unified market-determined exchange rate.
      * d. Financial Sector reforms included a reduction in CRR, SLR allowing private sector banks to expand, giving licenses to foreign sector banks, etc.
      * e. Taxation reforms included reduction of personal income tax, rationalizing tax slabs, and bringing services under the tax rates.

* + **Privatisation**
    - **Disinvestment:**
      * The selling of government shares in a public sector unit to any other enterprise or an individual is called **Disinvestment.**
      * IT can be of three types:
        + Minority sale:

When Government shareholding in a firm is kept at least 75% even after disinvestment is called a Minority sale.

* + - * + Strategic Minority sale:

When the government shareholding is above 50% but below 75% is called a strategic minority sale

* + - * + Privatization or Strategic Disinvestment:

Here the government shareholding falls below 50% and therefore the managerial control shifts to the private hands.

* + **Reasons for Disinvestment**
    - To release the resources like land, machinery, and labour from the non-core areas to core areas of governance such as law and order, sanitation, education, health care, etc.
    - Disinvestment can provide funds that can be used to strengthen the core areas and improve the functioning of the PSUs
    - It brings transparency to the management of PSUs by ensuring that they are listed on the stock exchange
    - It results in broader shareholding of the PSUs. Thereby allowing retail investors to generate wealth along with the growth of the PSUs.
    - It can be used as a method of signalling to the market regarding the future policy decision of the government.

* + **Problems/challenges in disinvestment:**
    - Undervaluation of Public sector assets can undue benefits to the private players and lead to losses to the exchequer.
    - The choice of PSU and the extent of disinvestment is not backed by a concrete plan.
    - There is a threat of job loss and compromise of the social security of the workers.
    - The proceeds of disinvestment are used to meet the fiscal deficit target of the government and not create any productive capacities or improve the functioning of the PSUs.
    - Several PSUs are placed in strategic areas and also help in providing welfare services.
    - This might be compromised in the case of privatization.
    - It can lead to a monopoly in the sector as a few dominant players can buy Public Sector Enterprises.
    - This allows them to consolidate market power or market control.

* + **Globalization:**
    - It is the growing interdependence and integration of the world economy, cultures, and populations that bring about cross-border trades in Goods and Services, technology, and flows of investment, people, and information.

* + **Benefits of globalization:**
    - Improved resource allocation whereby the country will focus on the sector where it has a competitive/comparative advantage.
    - Exposure to global competition can help improve efficiency and productivity in the economy.
    - Globalization can help provide better technology and transfer of know-how thereby improving production processes.
    - Investment from outside can help fill in the saving-investment gap and also generate employment in the economy.
    - Increased choice of products and services to the consumer.
    - Access to the global market can help achieve economies of scale and thereby enhance the profits of the companies.

* + **Problems/ Issues of Globalisation**
    - It exposes the domestic economy to the volatility and fluctuations of different economies.
    - It can negatively impact the domestic production capacity and make the economy import-dependent.
    - It can restrict the innovation capacity of the domestic economy by increasing the dependence on imports and lack of technology transfer.
    - The control of the international institutions such as WTO, World Bank, and IMF by the developed world can lead to a loss of sovereignty in deciding economic policies. Thereby negatively impacting the domestic interests.
    - Foreign investments can often lead to the creation of asset bubbles which can destabilize the domestic economy.

* + **The 1991 Reforms - A Paradigm Shift**
    - The changes introduced in 1991 are considered a paradigm shift in economic policy and governance because:
      * The essential objective of Economic growth was now combined with economic efficiency, the Earlier concerns about equity were subsumed in the pursuit of growth on the premise that it would reduce poverty.
      * There was a conscious decision to reduce the role of the state and rely on the market for development.
      * The government would no longer guide the allocation of scarce investable resources.
      * The degree of openness of the economy in trade, investment, and technology was sought to be increased significantly and rapidly.
      * The idea was to enforce cost discipline on the supply side.

* + **Analysis of the 1991 Reforms:**
    - **External sector- Positives**
      * Abundant foreign exchange reserves
      * Now qualified to handle any shocks.
      * Increased exports - merchandise and services
      * To plug the Saving-Investment gap: Capital inflow; FDI and FII increased.
      * Cheap imports- manufacturing, goods provision, raw materials.
      * Ease of labour movement- which has brought in remittances.
      * Opportunity to invest outside.
    - **Challenges**
      * Imports are impacting the domestic industry, MSME due to high import intensity.
      * Exposed to external shocks - 1997 (Asian financial crisis), 2008 (global financial crisis), Russia- Ukraine crisis- FIIs are pulling back their money.
      * Enclave economy - FDI in certain sectors and certain regions. (Bengaluru, Hyd, Pune, Gurugram, Cochin- these cities get maximum FDI)

* + **Domestic sector:**

* + **Positive**
    - High growth rate- 7% average
    - Product boom- the easy availability of a range of goods and services.
    - Poverty alleviation - in 1993-94: 45% of the population was poor whereas, in 2011, 21% of the population was in poverty. It also benefitted marginal castes.
    - Revenue from the government has increased.
    - Improved standard of living of the people.
  + **Challenges ­­­­­­­­­­­­**
    - Poor employment generation- the jobs generated required a set of skills.
    - The biggest problem of the market is heightened inequality and increased vulnerability to poverty.
    - The growth happened for the 10% people.
    - Regional inequality- Kerela vs Bihar
    - Poor state capacity- in education, healthcare, sanitation, electricity
    - Sustainability issue- The exploitation of resources.
    - Crony capitalism
    - The state has nexus with a few private players. E.g.- Bofors scandal, 2G scam etc.

* + **8th Five Year Plan(1992-97)**
    - It was initiated in the backdrop of the LPG reforms. It was the first plan for a market-oriented economy and is truly an indicative plan under which the government acts as a facilitator by laying down broad policies while the private sector plays an active economic role.
    - The GDP growth increased during the 8th FYP due to an increase in exports under robust industrial growth.
    - The active role of the private players in the economy.
    - LPG - active role of private players
    - Flailing state - executes big projects but basic necessities are not being provided to the people.
    - Growth on average was 13%+ for industries and there was robust export growth.
      * Target was 5.6%
      * Achieved- 6.8%

* + **Issues**:
    - Jobless growth due to capital intensive industry
    - Neglect of poverty
    - The growth did not create a lot of jobs and also the government neglected the social welfare and poverty alleviation programs.

* + **9th Five Year Plan(1997-2002)**
    - Continuation of LPG reforms
    - The private sector requires capital.
    - The financial market/ sector became part of the plan.
    - It recognized that demand is a constraint in growth.
    - Demand is being controlled through fiscal policy. Fiscal policy became part of the planning process.
    - Target was 6.5% and a growth rate of 5.4% was achieved.
    - Reasons for failure:
      * 1997- Asian financial crisis-
      * Trade exports went down and there were investment outflows.
      * Very high fiscal deficit due to 5th pay commission. It led to inflation, private investment went down.
      * Agriculture- Monsoon failure, the GDP went down.

* + **10th Five Year Plan(2002-07**
    - Increased foreign capital inflows
    - East Asian - still recovering
    - Savings rate increased and the Investment rate increased
    - A lot of investment happened- political stability.
    - Employment - the regional question has to be considered.
    - There was a separate volume on states.
    - Creation of infrastructure
    - The growth came mainly from the service sector- service-led growth(despite a substandard industrial sector).
    - Target was 8% and we had achieved a 7.6% growth rate.

* + **11th Five Year Plan (2007-2012)**
    - Employment and infrastructure were the focus.
    - Skill was the major focus- education, and healthcare- Inclusive growth.
    - Target growth rate- 9% and growth achieved 8%

* + **Issues:**
    - 2008 financial crisis: Outflows, FDI stopped, imports became expensive.
    - The slowdown in the industry: major supply shortages, Price fluctuations due to volatility in the market.
    - There was an increase in inflation due to which the RBI had to follow a contractionary monetary policy, which negatively impacted private sector investments.

* + **12th Five Year Plan: (2012-2017)**
    - It was introduced in the backdrop of a slow recovery from the external crisis and slowing momentum of the Indian Economy. The private sector investments which led to high growth and investment in 10 th and 11 th FYP slowed down during this FYP
    - The theme was : Faster, Sustainable, and more inclusive growth.
    - Inclusive growth meant poverty reduction, group equality, regional balance/equality, empowerment, and focus on reducing income inequality.
    - It set 25 monitorable targets for achieving these objectives.
    - 12 FYP was the first time when scenario planning was introduced, where plans were made for different circumstances or scenarios.

**Critique of the Planning Commission**

* + It acted as a super cabinet on the economic matters of the union and states.
  + The practice of discretionary grants with elaborate schemes of matching ratios infringed on the federal character of the Indian polity.
  + The authority and power in the Planning Commission shifted from the expert group to the generalist bureaucrats.
  + The bureaucrats on the deputation to the planning commission had managed to occupy the key positions replacing experts.
  + The commission was guided more by political pressures and immediate political demands rather than by expert judgments and planning for the long term.
  + It mostly focused on fund distribution for various programs rather than the implementation of the schemes and policy recommendations.
  + The Commission failed to monitor and evaluate the resources.
  + The planning commission appointed a lot of commissions and committees which consumed a lot of time instead of contributing in any substantial manner.
  + It developed a segmented structure and became a shadow organization of the ministries of the government.

**NITI Aayog**

* + It was set up in 2014 to overcome the problems of the planning commission.
  + Niti Aayog has been developed as a state of art resource centre with the necessary knowledge and skills that will enable it to act with speed, promote research, provide strategic policy vision and deal with the contingent issues in the economy.

* + **Its activities can be divided into 4 heads:**
    - Cooperative federalism: Team India- bringing states together.
    - Policy and program framework: 3-year Action Agenda; India at 75; 7-year Strategy; 15-year Vision(2016-30).
    - Monitoring and evaluation.
    - Think tank acting as a knowledge and innovation hub. e.g.- shifting to EV; it will conduct a study.

* + **It is supported by two  attached offices:**
    - The Atal Innovation Mission(AIM).
    - Development Monitoring and Evaluation Organization (DMEO)
    - It has an autonomous body under it called the “National Institute of Labour Economics Research and Development”.

**Positives**

* + Provided a platform for engagement with states- Team India Hub.
  + Think tank- published reports: Ideas+ analysis- Shifted to EV, Methanol Economy
  + Implementation strategies- Aspirational Districts, SDG goals.
  + Innovation- AIM (Atal Tinkering Labs).
  + Knowledge- development support services for infrastructure.
  + Competitive federalism- has created a lot of key indicators to measure state performances in the range of sectors leading to development strategies.

**Issues in Niti Aayog**

* + Centralization of ideas - lack of experts from states.
  + Lack of financial power - no power to implement
  + So, the states are not interested.
  + Consults outside agencies - Lack of in house expertise
  + Sub-standard quality of report - no pilot studies conducted.
  + Recommendations are not backed by any implementation strategies.
  + No focus on planning.

**Need for the Central Planning:**

* + The significance of inclusive development necessitates the need for central planning.
  + Not only the state is responsible for the provision of public goods, but it also does a lot of welfare expenditure, all of which requires proper planning.
  + To ensure a high GDP growth rate and realize India’s demographic dividend, a concrete economic plan is required.
  + Planning is required to tackle the growing protectionism and backlash against globalization to ensure consistent growth of exports and investments in the economy.
  + In the context of industry 4.0, it is necessary to have a vision and strategy for industrialization in India.
  + Climate change can have adverse consequences for agriculture, to mitigate the impact, there is a need for concrete policy and planning mechanism.
  + There needs to be a long-term perspective on sustainable development that is to manage the use of natural resources.
  + The various adverse factors facing India have to be addressed through conscious and expertly devised policy which requires policy and program coherence across key sectors of the economy and this is impossible in the absence of a strong planning institution.