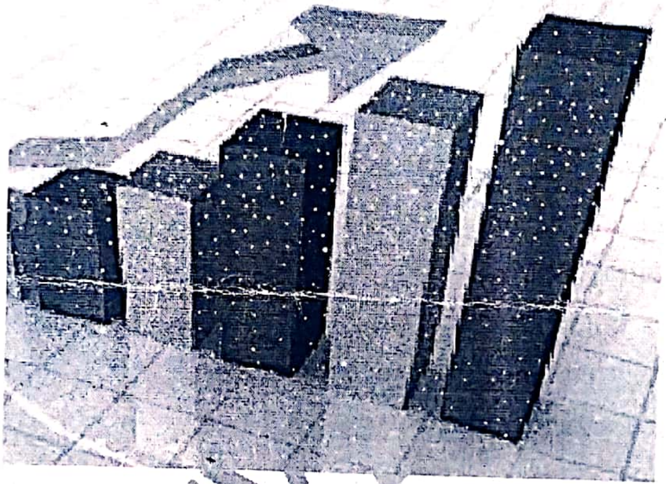
- Notes for ~~Swaps~~ B.E : BBA (IV) (SECTION –A)
- MODULE NO: 5

Indian Economy



- **COMPLIED BY :**
  - **Prof. Divya Tiwari**

INTRODUCTION TO AGRICULTURE :

Agriculture plays a vital role in India's economy. Over 58 per cent of the rural households depend on agriculture as their principal means of livelihood.

The share of primary sectors* (including agriculture, livestock, forestry and fishery) is estimated to be 20.4 per cent of the Gross Value Added (GVA) during 2016-17 at current prices. . GVA from the sector is estimated to have grown at 3 per cent in FY18.

The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment.

- **Market Size** :

- During 2017-18 crop year, food grain production is expected to reach a record 277.49 million tonnes. During 2016-17, it was 275.68 million tonnes.

India has been the world's largest producer of milk for the last two decades and contributes 19 per cent of the world's total milk production.

- India is emerging as the export hub of instant coffee which has led to exports of coffee increase 17 per cent in calendar year 2017 to reach US$ 958.80 million. Tea exports from India reached a 36 year high of 240.68 million kgs in CY 2017.

- Total area in India, sown with rabi crops reached 64.29 million hectares in February 2018.
- India is the second largest fruit producer in the world. India's horticulture output reached 300.64 million tonnes in 2016-17 and is expected to reach 305.43 million tonnes in 2017-18.
- Agricultural export constitutes 10 per cent of the country's exports and is the fourth-largest exported principal commodity. Agricultural exports from India reached US$ 28.09 billion during April 2017-January 2018 with exports of basmati, buffalo meat reaching US$ 6.19 billion and US$ 6.59 billion, respectively.
- India is the largest producer, consumer and exporter of spices and spice products. Spice exports from India grew by 6 per cent year-on-year between April-September 2017 to US$ 1.37 billion.

Dairy sector in India is expected to grow at 15 per cent CAGR to reach Rs 9.4 trillion (US$ 145.7) billion by 2020.
The online food delivery industry grew at 150 per cent year-on-year with an estimated Gross Merchandise Value (GMV) of US$ 300 million in 2016. The sector grew 15 per cent every quarter during January-September 20

➢ Industrial policies in India :

At the time of independence, India had an extremely underdeveloped and unbalanced industrial structure. Industries contributed less than one sixth part of national income.

The country did have some industries like cotton textiles, jute and sugar, but there were virtually no basic, heavy and capital goods industries on which programmes of future industrialisation could be based.

Whatever major industries were there, they were largely concentrated in a few areas such as Bombay. Surat, Ahmedabad. Jameshedpur, Calcutta, Delhi etc. While the rest of the country remained industrially neglected.

Thus after independence, the government of India had to undertake effective measures to increase the tempo of industrialisation. Correct regional imbalances in industrial development and rectify the distorted industrial structure through rapid development of capital goods industries.

- **Meaning:**

Industrial policy is a statement which defines the role of government in industrial development. The place of the public and private sectors in industrialization of the country. The relative role of large and small industries.

It lays down rules and procedures that would govern the growth and pattern of industrial activity. The industrial policy is neither fixed nor inflexible. It is amended, modified and redrafted according to the changed situations, requirements and perspectives of developments.

Objectives:

The major objectives of industrial policy are:

(i) **Rapid Industrial Development**

(ii) **Balanced industrial Structure**

(iii) **Prevention of Concentration of Economic Power**

(iv) **Balanced Regional Growth**

Industrial Policies of 1948 :

After gaining independence on August 15, 1947 it was necessary to give new policy for industrial development, decide priority areas and clear doubts in the minds of private entrepreneurs regarding nationalisation of existing industries.

The Government of India announced its Industrial Policy Resolution (IPR) on April 6, 1948 whereby both public and private sectors were involved towards industrial development.

The following are the main features of Industrial Policy of 1948:

(i) CATEGORY OF INDUSTRIES:

Large scale industries were divided into four categories.

(a) Public sector: It includes industries owned and managed by Govt. viz. Arms and ammunitions atomic energy and railways.

(b) Public-cum-Private sector: It included six basic industries coal, iron and steel, aircraft manufacture, ship building, mineral oil, telephones, cable and wireless industry. The new ventures relating to these industries will be established by Govt. and already existing units will continue to be managed and developed for next 10 years by Private Sector.

(c) Controlled private sector: In includes 18 important industries viz. motor vehicles, heavy machine tools, cotton textiles, cement, sugar, paper, shipping material and tractor. These industries will continue to remain under private sector but Central Govt. will have overall control over them.

(d) Private and co-operative sector: The rest of the industries will be run under private ownership or on co-operative basis Govt. can keep check on these.

(ii) COTTAGE AND SMALL SCALE INDUSTRIES:

Rapid development of these industries was emphasised in order to use local resources generating employment ovenues and production of consumer goods.

(iii) EMPLOYEE-EMPLOYER RELATION:

It was aimed that employee- employer relations should be congenial. The worker should get fair wages and social security.

(iv) CONTROL OVER FOREIGN CAPITAL:

The role of foreign capital for industrial development was recognised. But Govt. took full control over foreign capital to watch the interests of nation.

- ✓ In a short period of operation of the 1948 Industrial Policy, some significant changes took place in the economic and political spheres that called for changes in industrial policy as well. The country hand launched a programme of planned economic development with the first five-year plan.

The second five- year plan gave high priority to industrial development aimed at setting up a number of heavy industries such as steel plants, capital goods industries, etc., for which direct government participation and state involvement was needed.

In view of ail these developments, a new industrial policy was announced in April 1956. The main features of this Industrial Policy Resolution of 1956 were as follows:

<u>1.New Classification of industries:</u>

The Industrial Policy of 1956 adopted the classification of industries into three categories viz.,

(i) Schedule A industries, (ii) Schedule B industries, and (iii) Schedule C industries according to the degree of state ownership and participation in their development:

(i) Schedule A, which contained 17 Industries. All new units in these industries, such where their establishment in the private sector has ready been approved, would be set up only be the state.

(ii) Schedule B which contained 12 industries, such industries would be progressively state owned, but private enterprise is expected to supplement the efforts of the state in these fields.

(iii) Schedule C. All remaining industries fell in this category; the future development of these industries had been left to the initiative and enterprise of the private sector.

- **It has following objectives:**

(i) Development of machine-building industries.

(ii) Increase in rate of industrial development.

(iii) Reduction of income and wealth inequalities.

- **<u>Assistance to Private Sector:</u>**

While the Industrial Policy of 1956 sought to give a dominant role to public sector, at the same time it assured a fair treatment to the private sector. The 'policy' said that the state would continue to strengthen and expand financial institutions that extend financial assistance to private industry and cooperative enterprises. The state would also strengthen infrastructure (power, transport etc.) to help private sector.

- **<u>Expanded role of Cottage and Small-Scale Industries</u>:**

The Industrial Policy of 1956 laid stress on the role of cottage and small scale industries for generating larger employment opportunities, making use of local manpower and resources and reducing- regional inequalities in industrial development.

➢ Balanced Industrial Growth among Various Regions:

The Industrial Policy, 1956 helped to reduce regional disparities in industrial development. The policy stated that facilities for development will be made available to industrially backward areas. The state, apart from setting up more public sector industries in these backward areas, will provide incentives such as tax concessions, subsidized loans etc., to the private sector to start industries in these backward regions.

➢ Role of Foreign Capital:

The industrial Policy 1956 recognised the important role of foreign capital in country's development. The foreign capital supplements domestic savings. Provides more resources for investment and relieves pressure on Balance of payments.

The country therefore welcomed inflow of foreign capital. But the 'Policy' made it clear that inflow of foreign capital will be permitted subject to the condition that major share in management, ownership and control should be in the hands of Indians.

➢ Incentives to labour:

The Industrial Policy, 1956 recognised the important role of labour as a partner in the task of development. The 'policy' therefore put emphasis on the provision of adequate incentives to workers and improvement in their working and service conditions. It laid down that wherever possible the workers should be progressively associated with that management so that they are enthusiastically involved in the development process.

➢ Conclusion:

The Industrial Policy 1956 thus provided a comprehensive framework for industrial development in India. However, this policy has been criticised on the grounds that by enormously expanding the field of public sector it had drastically reduced the area of activity for the private sector.

This was expected to adversely affect the industrial growth of India by reducing private initiative and enterprise. The supporters of the 1956 Industrial Policy, however felt that there were no undue restrictions or Curbs on the private sector.

Except for 17 industries in schedule A, all other industries remained open for the private sector. Even in the case of schedule A industries, the state could permit private entrepreneurs to set up undertakings if in the interest of development it was thought to be desirable.

➢ New Economic Policy of 1991: Objectives, Features and Impacts :

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis triggered by a serious Balance of Payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy.

The response to the crisis was to put in place a set of policies aimed at stabilisation and structural reform. While the stabilisation policies were aimed at correcting the weaknesses that had developed on the fiscal and the Balance of Payments fronts, the structural reforms sought to remove the rigidities that had entered into the various segments of the Indian economy. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy of India.

➢ Main Objectives of New Economic Policy – 1991, July 24 :

The main objectives behind the launching of the New Economic policy (NEP) in 1991 by the union Finance Minister Dr. Manmohan Singh are stated as follows:

1. The main objective was to plunge Indian economy in to the arena of 'Globalization and to give it a new thrust on market orientation.

2. The NEP intended to bring down the rate of inflation and to remove imbalances in payment.

3. It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.

4. It wanted to achieve economic stabilization and to convert the economic in to a market economy by removing all kinds of unnecessary restrictions.

5. It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

6. It wanted to increase the participation of private players in the all sectors of the economy. That is why the reserved numbers of sectors for government were reduced to 3 as of now.

Beginning with mid-1991, the govt. has made some radical changes in its policies bearing on trade, foreign investment exchange rate, industry, fiscal discipline etc. The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

The thrust of the **New Economic Policy** has been towards creating a **more competitive environment** in the economy as a means to **improving the productivity and efficiency** of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.

➢ Introduction to 'Privatization' :

The transfer of ownership, property or business from the government to the private sector is termed privatization. The government ceases to be the owner of the entity or business.

- The process in which a publicly-traded company is taken over by a few people is also called privatization.
- The stock of the company is no longer traded in the stock market and the general public is barred from holding stake in such a company. The company gives up the name 'limited' and starts using 'private limited' in its last name.
- Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about.
- India went for privatization in the historic reforms budget of 1991, also known as 'New Economic Policy or LPG policy'.
- For example : **Privatization of Dell**

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- In 2013, Dell Inc. transitioned from a publicly-traded to a privately-held company as part of a merger agreement. In order to complete the process, existing shareholders were offered a fixed amount per common share plus a specified dividend. Once complete, the company was able to conclude public trading and remove its common shares from the NASDAQ Stock Exchange in a process called delisting.

- **What is 'Disinvestment':**

"Disinvestment can also be defined as the action of an organisation (or government) selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.'Or

"Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money. As follows, disinvestment involves the conversion of money claims or securities into money or cash."

- Absent the sale of an asset, disinvestment also refers to capital expenditure reductions, which can facilitate the re-allocation of resources to more productive areas within an organization or government-funded project.
- Disinvestment is aimed at reducing the financial burden on the government due to inefficient PSUs and to improve public finances. It introduces competition and market discipline and helps to depoliticise non-essential services.
- The equity allocation provides long-term growth and the debt exposure reduces the volatility of the returns, thus offering the benefits of asset allocation in a single product.
- The fund manager manages the allocation to equity and debt in a dynamic manner and so the investor does not need to

keep track of the asset allocation of the fund and does not have to carry out the rebalancing at his end.

- A company or a government organisation will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general/specific needs.

Monetary Policy :

What is 'Monetary Policy'

Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves).

Monetary policy is how central banks manage liquidity to create economic growth. Liquidity is how much there is in the money supply. That includes credit, cash, checks and money market mutual funds. The most important of these is credit. It includes loans, bonds and mortgages.

Objectives of Monetary Policy :

The primary objective of central banks is to manage inflation. The second is to reduce unemployment, but only after they have controlled inflation.

Types of Monetary Policy :

Central banks use contractionary monetary policy to reduce inflation. They have many tools to do this. The most common are raising interest rates and selling securities through open market operations.

They use expansionary monetary policy to lower unemployment and avoid recession. They lower interest rates, buy securities from member banks and use other tools to increase liquidity.

➢ Fiscal policy :

Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth of the economy.

The fiscal policy reflects the priorities of individual lawmakers. They focus on the needs of their constituencies. These local needs overrule national economic priorities. As a result, fiscal policy is hotly debated, whether at the federal, state, county or municipal level.

The government may change undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

Fiscal policy also feeds into economic trends and influences monetary policy. **When the government receives more than it spends, it has a surplus.** If the government spends more than it receives it runs a deficit. To meet the additional expenditures, it needs to borrow from domestic or foreign sources, draw upon its foreign exchange reserves or print an equivalent amount of money. This tends to influence other economic variables.

Main Objectives of Fiscal Policy in India

Before moving on the discussion on objectives of India's Fiscal Policies, firstly know that the general objective of Fiscal Policy.

General objectives of Fiscal Policy are given below:

1. To maintain and achieve full employment.
2. To stabilize the price level.
3. To stabilize the growth rate of the economy.
4. To maintain equilibrium in the **Balance of Payments.**
5. To promote the economic development of underdeveloped countries.

➢ **Monetary Policy Versus Fiscal Policy :**

Ideally, monetary policy should work hand-in-glove with the national government's fiscal policy.

It rarely works this way. That's because government leaders get re-elected for reducing taxes or increasing spending. That means rewarding voters and campaign contributors, to put it bluntly. As a result, fiscal policy is usually expansionary. To avoid inflation in this situation, monetary policy must be restrictive.

Ironically, during the Great Recession, politicians became concerned about the U.S. debt. That's because it exceeded the benchmark debt-to-GDP ratio of 100 percent. As a result, fiscal policy became contractionary just when it needed to be expansionary. To compensate, the Fed injected massive amounts of money into the economy with quantitative easing.
