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Economics
Mind Maps

National Income Accounting

- set of rules and techniques that are used to measure the economic activity of a country during a given period.
- Provides conceptual framework to measure GDP, GNP etc.

Types of economic system

- Resources are scarce/limited. Resources can be put to alternative/competing usages. This gives us the problem of choices on how to use the resources.
- Every country/nation faces three fundamental problems
  - What to produce?
  - How to Produce?
  - Whom to Produce?
- We have 3 types of economic system
  - Capitalism / Market Economy
  - Socialism / Command Economy
  - Mixed Economy

S.No.	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Solution of Central Problems	Free Market System	Central Planning System	Central Planning System and Free Market System
4	Government Role	Interanal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises
7	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8	Major Problem	Inequality	Inefficiency	Inequality and Ineffiency

Four Factors of Production

- Land (raw material) - Natural resource such as land, water, minerals, etc. The return for the natural resources is called "**Rent**".
- Labour - human labour which may be physical or mental i.e. it can be unskilled, semi-skilled or skilled. When a human being provides his labour to the enterprise, in return he/she expects "**wages**"
- Capital – Physical capital such as building, machinery, equipment & Financial capital (money). The return for capital is called "**Interest**"

- Entrepreneur – Person starting an enterprise by bringing together land, labour and capital. The return for entrepreneur is called "**profit**"

Types of Goods

- Intermediate Goods – used as input in further production. Eg – steel sheets, cotton yarn etc.
- Final Goods – meant for final use. Will not undergo any further transformation in production process. They are of two types:
  - Consumption Goods - consumed by the ultimate consumers. Eg – clothing, food etc
  - Capital goods – durable goods (tools, implements, machines etc.) used in further production of commodities. They themselves don't get transformed in production process.

- **Normal Goods**
  - The normal goods is one whose demand increases with rise in consumer income and demand decreases with decline in consumer income.
  - a consumer's demand for a normal good moves in the same direction as the income of the consumer
  - e.g. - electronics goods, organic food, clothes etc.
- **Inferior goods**
  - As the income of the consumer increases, the demand for an inferior good falls, and as the income decreases, the demand for an inferior good rises.
  - Examples of inferior goods include low quality food items like coarse cereals.
- **Veblen Goods**
  - A Veblen good is a good for which demand increases as the price increases.
  - Luxury goods, status symbol
  - e.g. - swiss wrist watches, wines, designer handbag, iphones etc.
  - They do not follow law of demand
- **Giffen Goods**
  - low income, non-luxury product for which demand increases as the price increases and vice versa
  - Poor man's good
  - Demand for Giffen goods is heavily influenced by a lack of close substitutes and income pressures.

Four Sectors of Economy

- Private Sector
- Government Sector
- Household Sector
- External Sector

Circular Flow of Income in economy

- It describes the movement of goods or services and income among the different sectors of the economy

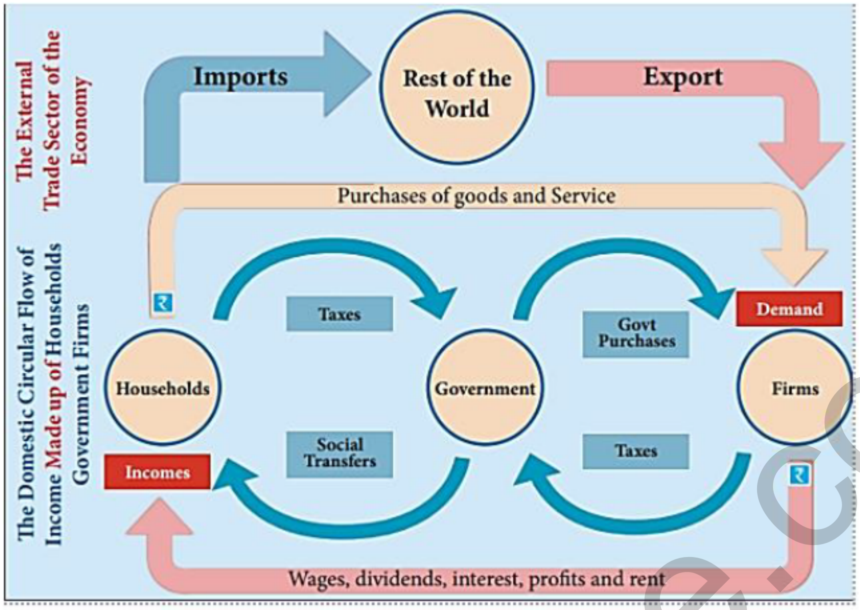


Fig – Circular Flow of Income in four sector economy

Methods of Measuring National Income

There are three methods that are used to measure National Income:

1. Production Method (Value added Method)
    - In this method, money value of aggregate output from all sectors of an economy in an year is calculated.
    - Value added by firm = value of production of the firm – value of intermediate goods used by the firm
    - Items not included in calculation – intermediate goods which are consumed in production process to avoid double accounting.
    - Items to be included – Production for Self-Consumption (consumption of self produced food grains by farmers)
2. Income method (Factor earning Method)
    - In this method, national income is calculated by adding up all the incomes (payment made to factors of production) generated in the course of producing national product.
    - It includes – Rent (land), Wages (labour), Interest (capital) & Profits (Enterpreneur)
    - Items not included in calculation – Transfer Payments, second hand goods, windfall gains such as lotteries, illegal income or black money.
    - Items to be included - Imputed value of rent for self occupied houses or offices is to be included.
3. Expenditure Method
    - In this method, GDP is calculated by adding spending done by four sectors of economy in purchasing goods and services.
    - GDP = C + G + I + (X-M)
        - o C = Private Final consumption expenditure (by households)
        - o G = Government Final consumption expenditure (by govt)
        - o I = Private Investment Expenditure
        - o X = Exports, M = Imports

- Items not included in calculation
    - Second hand goods
    - Purchase of shares and bonds in secondary market
    - Transfer Payments
    - Expenditure on intermediate goods

Few Concepts

- Factor Price & Market Price
    - Factor Price - Total cost of all factors of production (such as labour, capital, land etc.) used in producing goods or services. It is the price of the commodity from the producers side. It includes government subsidies.
    - Market Price – It is the price at which a product is sold in the market. It includes the cost of production in the form of wages, rent, interest, input prices, profit etc. It also includes the taxes imposed by the government. It excludes Government subsidy.
    - Market Price = Factor Price + Indirect Taxes – Subsidies
- Gross Vs Net
    - Factors of production undergo wear and tear (reduction in value of asset over time). This wear and tear is called Depreciation. A part of capital is used for this wear and tear which is not used in production of goods and services
    - Gross – Depreciation = Net
    - e.g. GDP – Depreciation = NDP

Various Macroeconomic Aggregates

- Gross Domestic Product (GDP)
    - GDP is the **total market value** of all the **final goods and services** produced **within the domestic territory of a country** for a given time period, normally a year.
        - Only 'final' goods and services (and not intermediate goods) are included in the calculation of GDP.
        - Domestic Territory of a country
            - political frontiers of the country including its territorial waters, ships, aircrafts, fishing vessels operated by the residents of the country, embassies and consulates located abroad etc.

Nominal GDP

- total market value of all the final goods and services produced within a country in a given period using that year's prices (also called "current prices").
- Nominal GDP at current prices = Final goods and services produced in an year * Prices of goods and services in that year
- It measures growth in value (quantity and price both)

Real GDP

- total market value of all the final goods and services produced within a country in a given period (Current year) using Base year's prices (also called "constant prices").
- It is inflation adjusted GDP
- It truly reflects the real change in physical output of a country

Potential GDP

- It is the real value of goods and services that can be produced when a country's factors of production are 'fully employed'.

- It is the maximum sustainable level of output that an economy can produce. When an economy is operating at its potential (trend), there are high levels of utilization of the labour force and the capital stock.

- Gross National Product (GNP)
  - GNP is the total market value of all the finished goods and services produced by the country's residents, irrespective of their location.
  - It measures the output/earnings made by Indian residents only whether in India or abroad. It does not include output/earnings made by foreign residents in India
  - GNP = GDP + Net Factor Income from abroad (NFIA)
    - NFIA = income earned by the domestic factors of production employed in the rest of the world – Factor income earned by the factors of production of the rest of the world employed in the domestic economy.
- Net National Product (NNP)
  - Factors of production under go wear and tear. This wear and tear is called Depreciation. A part of capital is used for this wear and tear which is not used in production of goods and services.
  - Net National Product (NNP) = Gross National Product (GNP) – Depreciation
  - NNP (@Factor Cost) = NNP (@Market Price) – Taxes + Subsidies
- Personal Income
  - Personal Income is the part of National Income which is received by the households.
  - Personal income (PI) ≡ NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms.
- Personal Disposable Income
  - income that is available to the households that they can spent as they wish.
  - Personal Disposable Income (PDI) = PI – Personal tax payments – Non-tax payments (such as fines etc.)
- National Disposable Income
  - National Disposable Income = Net National Product at market prices + Other current transfers from the rest of the world
- Per Capita Income
  - Per Capita Income = National Income/ Total Population
  - It is the average income of a person of a country in a particular year.

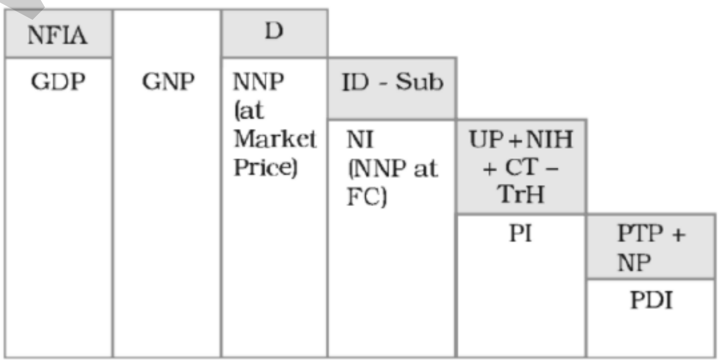


Fig - Diagrammatic representation of the subcategories of aggregate income.

Post 2015 changes in GDP calculation

Parameters	Pre 2015	Post 2015
Base Year	2004-05	2011-12
Database	Annual Survey of Industries (around 2 lakh industries)	MCA -21 (around 5 lakh industries)
GDP calculation	GDP at Factor cost	GDP at Market Price

Limitations of GDP as measurement of Economic growth

- Does not reflect economic inequality.
- Not a fair indicator of standard of living, Healthcare facilities, gender disparities etc
- does not take into account the economic value of the environment

Alternatives of GDP

- Human Development Index
- Gender Inequality Index
- Gross National Happiness Index
- Green GDP

Opportunity Cost

Opportunity cost is a concept in Economics that is defined as those values or benefits that are lost by a business, business owners or organisations when they choose one option or an alternative option over another option, in the course of making business decisions.
In simple words, it can be said as the value that is lost when a business is choosing between two or more alternatives. From an investor perspective, opportunity cost will always mean that the investment choices made will be carrying immediate loss or gain in the future.
Opportunity costs can be viewed as a trade off. Trade offs happen in decision making when one option is chosen over another option. Opportunity costs sums up the total cost for that trade off.
For example, a certain kind of bamboo can be used to produce both paper and furniture. If the business takes a decision to consider using bamboo for furniture, then the society has to forego the number of bamboos that could have been used for manufacturing paper.
Here, the opportunity cost of producing furniture is the number of papers that are foregone.

Aspects of Opportunity Cost

The opportunity cost of a product is the best alternative that was foregone. There cannot be any other alternative.

How to Calculate Opportunity Costs

Opportunity costs can be calculated using the following formula
Opportunity Cost = Return on investment for an option not chosen – Return on investment for a chosen option

Limitations of Opportunity Costs

The following are the limitations of opportunity costs:
1. Future returns cannot be predicted accurately using opportunity costs.
2. It is difficult to make quantitative comparison between two available alternatives.

Law Diminishing Returns

Diminishing returns is also known as the law of Diminishing Returns. The law of diminishing marginal productivity states the law of Diminishing Returns. The law of Diminishing Returns occurs when there is a decrease in the marginal output of the production process as a consequence of an increase in the amount of a single factor of production, while the amounts of other parameters of production remain constant. The theories of production describe the law of Diminishing Returns as a fundamental principle of economics.
According to the law of diminishing marginal returns, counting an additional factor of production results in outcomes of small growth. After some ideal level of volume is achieved, the adding of any bigger amounts of a factor of production will only yield reduced per-unit incremental returns.
The law of Diminishing Returns is quickly applicable in the fields of agriculture, mining, forests, fisheries and building industries.

Definition of Law of Diminishing Returns

As per economists, the law of Diminishing Returns is the phenomenon when more and more units of a changing input are to be used. On a given quantity of fixed data, the total output may initially increase at an increasing rate and then at a constant rate. The fact that It will eventually increase at a decreasing rate explains the law of Diminishing Returns.
Various economists have defined the law of Diminishing Returns.
When the total output initially increases with an increase in changing input at a given quantity of fixed data, but it starts decreasing after a point of time, illustrates the law of Diminishing Returns.
The significance of the law of Diminishing Returns can be understood by referring to the theory of production.
To properly illustrate the law of Diminishing Returns, some examples are given in this article

The law of Diminishing Returns owes its origin to the efforts of early economists such as James Steuart, David Ricardo, Jacques Turgot, Adam Smith, Johann Heinrich von and Thomas Robart Malthus. These economists propounded the definition of the law of Diminishing Returns.
An example to further illustrate the law of Diminishing Returns: Let's take an example of a firm that has a set stock of tools and machines, and an uneven supply of labour. As the number of workers increases in the firm, the total output of the firm rises, but at an ever-decreasing rate. It is due to this reason that after a certain point, the firm gets overcrowded and workers start to form lines to use the machines. The permanent solution to this problem is to increase the stock of capital, buy more machinery and build more firms. The above-provided example discusses the law of Diminishing Returns.

Significance of the Law of Diminishing Returns
The law of Diminishing Returns states that the result of adding a factor of production is a smaller increase in output. The addition of any amount of a factor of production, after some best possible level of capacity utilization, will inevitably capitulate decreased per-unit incremental returns. Various factors can be given to illustrate the law of Diminishing Returns.
There are many significant laws of Diminishing Returns. In mathematics, the optimization theory explains the law of diminishing returns as equivalent to a second-order condition. This theory makes perfect sense in economics.
Let us take an example to illustrate the law of diminishing returns. Suppose that the profits of a given company do not decrease with higher levels of production, it could mean that the company would decide to produce an infinite amount of their product for the same Infinitum benefit and returns. Like this, there can be various scenarios for a better understanding of the definition of the law of Diminishing Returns.
The Theory of Production explains the Law of Diminishing Returns
The significance of the law of Diminishing Returns can help in the formulation of various economic policies, to explain the tax difference in the income of different classes
In short, the Law of Diminishing Returns is a perfect phenomenon for the maximization of profit. Failing to prove this second-order condition will mean that the person is minimizing the returns, instead of maximizing them.
The law of Diminishing Returns states that in a production process with which all other factors are fixed except one if the quantity of the variable factor increases by a fixed rate, the level of production will increase by a decreasing rate.

Capitalism vs Socialism
Capitalism is a type of economic system where the means of production are owned by private individuals. Socialism on the other hand is a system where the means of production like money and other forms of capital are owned to some extent by the public. Take a look below to know the difference between capitalism and socialism. Also understand the concept of the two terms that are used so frequently in the Indian Economic System.

Capitalism:
In a capitalist system the economy is substantially run by individuals who own and operate private companies.
All the decisions over the use of resources are made by the individuals who own those companies.
Under capitalism, companies live by the motivation for profit.
The quantity of goods and services produced is based on a system of supply and demand. In the purest form of capitalism free market or laissez-faire capitalism, the individuals are unrestrained in participating in the economy.

Socialism:
Socialism is itself a variety of economic systems in which means of production are owned equally by everyone in society. In various socialist economies, a democratically elected government owns and controls major businesses and industries.
In socialism each person in society gets a share of the economy's collective production based on how much they have contributed to generating it.

Difference between Capitalism and Socialism:

Take a look at the differences below based on the criteria

Criteria	**Capitalism**	**Socialism**
Assets Ownership	Means of production is owned by private individuals	Means of production is owned by government or cooperatives
Income	The income is determined by free market forces	Income in such types of economy are equally distributed among all based on needs
Consumer Prices	Prices are determined by demand and supply/ market	Prices are decided and set by the government
Efficiency	Free market competition encourages efficiency and innovation	Government-owned businesses have less incentive for efficiency and innovation
Health Services	Healthcare services are provided by private sector	Healthcare provided free or subsidized by the government
Taxes	Limited taxes based on individual income	High taxes necessary to pay for public services

These were the differences between Capitalism and Socialism based on various categories.

CAPITAL FORMATION AS ECONOMIC FACTOR IN ECONOMIC GROWTH

- **Capital formation** is the process by which a community's savings are channelled into investments in capital goods such as plant, equipment, and machinery, which **increases a country's productive capacity** and worker efficiency, ensuring a greater flow of goods and services in a country.
- The process of capital formation implies that a community does not spend its entire income on goods for current consumption, but **rather saves a portion** of it and uses it to produce or acquire capital goods that significantly increase the nation's productive capacity.
- More goods and services produced can lead to an increase in national income levels. A country must generate savings and investments from household savings or from government policy in order to accumulate additional capital.
- **Countries with high household savings rates can accumulate funds to produce capital goods more quickly**, and a government that runs a surplus can invest the surplus.
- Capital formation refers not only to the creation of physical goods, but also to the **creation of human capital** such as education, health, skill development, etc.
- The process of capital formation occurs in three stages,which are:
  - **Creation of Savings** - It is savings that are converted into capital. Individuals generate savings by deferring their current consumption by reducing their expenditures on consumer goods.
  - **Effective Mobilization of Savings** - It is not enough to simply have more savings. Capital formation cannot occur unless people's savings are actually used (i.e., invested) to produce capital goods. However, in order to achieve this goal, the savings of various households and individuals must be effectively mobilised and made available for investment to businessmen and entrepreneurs.
  - **Investment of Savings** - People's savings must be properly invested in order for a large number of honest and risk-taking entrepreneurs to produce capital goods in various productive systems such as agriculture, industry, trade, public works, transportation, communication, and improved technical know-how.

INDIAN ECONOMY – PRE INDEPENDENCE ERA (BEFORE 1947)

- India had an **independent economy** before the advent of British rule.
- India was particularly well known for its **handicraft industries** in the fields of cotton and silk textiles, metal and precious stone works, etc.
- **Aim of the British colonial rule in India** – To reduce the country to being a feeder economy for Great Britain's own rapidly expanding modern industrial base.
- **British Economic policies** – concerned more with the **protection** and **promotion** of the economic interests of Britain than with the development of the Indian economy.
- **A fundamental change in the structure of the Indian economy** – India was transformed into a net supplier of raw materials and **consumer of finished industrial products** from Britain.
- The colonial government **never made any sincere attempt** to estimate national and per capita income of India.
- **Notable estimators were** – Dadabhai Naoroji (Poverty and Un-British Rule in India), William Digby, Findlay Shirras, V.K.R.V. Rao (considered very significant) and R.C. Desai

AGRICULTURE SECTOR

- **Agrarian Economy** – Indian economy under the British rule was fundamentally **agrarian**e. **about 85 per cent** of the country's population lived **mostly in villages** and **derived livelihood directly or indirectly from** AGRICULTURE.
- **Stagnated agriculture sector** – Reason being **over-crowded** with involvement of maximum population leading to a **very low agricultural productivity,** in absolute terms.

- However, the sector experienced some growth due to the **expansion of the aggregate area under cultivation.**
- Pertaining to systems of land settlement, the profit accruing out of the agriculture sector went to the **zamindars** instead of the cultivators with no zamindars initiating to strive for the development of agriculture.
- **Lack of agricultural inputs** – Low levels of technology, lack of irrigation facilities and negligible use of fertilisers resulted **in a dismal level of agricultural productivity and efficiency.**
- India's agriculture was starved of investment in terracing, flood-control, drainage and desalination of soil.
- **The commercialisation of agriculture** – could hardly help farmers in improving their economic condition as they were producing cash crops which were to be ultimately used by British industries back home.
- **Partition of the country**: A sizeable portion of the undivided country's **highly irrigated and fertile land went to Pakistan** leading to an adverse impact upon India's output from the agriculture sector especially, Jute industry (the whole of the area went away to East Pakistan)

INDUSTRIAL SECTOR

- India **could not develop a sound industrial base** even while carrying the legacy of churning out the best handicraft stuff in the world – it declined rapidly and no corresponding modern industrial base was allowed to take its place.
- **Policy of systematic deindustrialisation** – To reduce India to the **status of a mere exporter of important raw materials** for the upcoming modern industries in Britain.
- To turn India into a **sprawling market for the finished products** of those industries so that their continued expansion could be ensured to the maximum advantage of Britain.
- **Decline of the indigenous handicraft** industries created massive **unemployment** and **rural distress** in india.
- **Cotton and jute textile mills** were mainly concentrated in the **western parts** of the country – Maharashtra and Gujarat (Indians).
- During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very **slow and stagnant.**
- **Iron and steel industries began to rise up** – The Tata Iron and Steel Company (TISCO) was incorporated in **1907**. Other industries like sugar, cement, paper etc. came up after the Second World War.
- **Capital goods industry** – Though necessary to help promote further industrialisation, this industry did not bloom.
- Growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained dismal and piecemeal.
- The industrial sector thus, was **left out crying for modernisation, diversification, capacity building** and increased public investment.
- **Limited area of operation of the public sector**—it remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

Capital goods industry – means industries which can produce machine tools which are, in turn, used for producing articles for current consumption.

FOREIGN TRADE

- India has been an **important trading nation since ancient times.**
- **Restrictive policies** of commodity production, trade and tariff made India an exporter of primary products (raw silk, cotton, wool, sugar, indigo, jute etc.) and an importer of finished consumer goods (cotton, silk and woollen clothes and capital goods like light machinery) produced in the factories of Britain

- Britain maintained a **monopoly** control over India's exports and imports, leading to **more than half of India's foreign trade to be restricted to Britain** while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).
- The **opening of the Suez Canal** further intensified British control over India's foreign trade (box)
- Several **essential commodities** such as food grains, clothes, kerosene etc. suffered **acute scarcity** in the domestic market.
- The **expenses incurred by an office,** set up by the colonial government in Britain and **expenses on war fought by the British government** were accrued from revenue generated from India.

PRE-INDEPENDENCE PLAN MODELS

1. **Visvesvaraya** published his book **"Planned economy in India" in 1934.** In this book he presented a constructive draft of the development of India in **10 years**. His core idea was to lay out a plan to **shift labour from agriculture to industries** and **double up National income** in ten years. This was the **first concrete scholarly work** towards planning.
2. The economic perspective of India's freedom movement was formulated during the **Karachi session** of INC (1931), **Faizpur session** of INC (1936).
3. **National Planning Committee (1938)** – was the **first attempt** to develop a national plan for India. This committee was set up by Congress president **Subhash Chandra Bose** and was chaired by **Jawaharlal Nehru.** However the reports of the committee could not be prepared and only for the first time in 1948-49 some papers came out.
4. **Bombay Plan** – In 1944, Industrialists of Bombay including Mr. JRD Tata, GD Birla, Purshottamdas Thakurdas, Lala Shriram, Kasturbhai Lalbhai, AD Shroff, Ardeshir Dalal, & John Mathai working together prepared **"A Brief Memorandum Outlining a Plan of Economic Development for India"** which was popularly known as Bombay Plan. This plan envisaged **doubling the per capita income in 15 years** and **tripling the national income** during this period.
5. In August **1944**, The British Indian government set up a **"Planning and Development Department"** under the charge of **Ardeshir Dalal**. But this department was abolished in 1946.
6. **People's Plan** – Plan was based upon Marxist socialism and **drafted by M N Roy**. This plan was **for a ten years period** and gave **greatest priority to Agriculture**. Nationalization of all agriculture and production was the main feature of this plan.
7. **Gandhian Plan (1944)** – Put forward by Sri Shriman Narayan in 1944 who was **principal of Wardha Commercial College**. It was a **modest kind** of plan. Plan emphasized economic **decentralization** with primacy to **rural development** by developing cottage **industries**.
8. **Sarvodaya Plan (1950)** – Plan was drafted by **Jaiprakash Narayan** inspired by Gandhian plan as well as **Sarvodaya Idea of Vinoba Bhave**. It **emphasized on small and cotton industries and agriculture** as well. Plan **also stressed upon land reforms** and **decentralized participatory planning**.

POST-INDEPENDENCE

- **Economic Programme Committee (EPC)** – formed by **All India Congress Committee** (AICC) with **Nehru as its chairman**. The aim of this committee was to make a plan which could **balance private and public partnership and urban and rural economies**. The EPC recommended in 1948 to form a **permanent Planning Commission** in India.
- In **March 1950** in pursuance of declared objectives of the Government, the **Planning Commission was set up by a Resolution**, with **Jawaharlal Nehru as the first Chairman** of the Planning Commission.
- The Planning Commission was charged with the responsibility of **making assessment of all resources** of the country, **augmenting deficient resources,** formulating plans for the most effective and **balanced utilization of resources** and determining priorities.

Democratic Socialism: Nehru was greatly influenced by the achievements of Soviet Planning; The philosophy was to not only check the growth of monopolistic tendencies of the private sector but also provide freedom to the private sector to play for main objective of social gain rather than economic gain.

THE GOALS OF FIVE-YEAR PLANS

GROWTH

- Growth refers to an increase **in the country's capacity** to produce the output of goods and services within the country.
- Good indicator of economic growth is the **steady increase in the country's Gross Domestic Product** (GDP) – the market value of all the goods and services produced in the country during a year.
- The GDP of a country is **derived from the different sectors** (Primary, Secondary and Tertiary) of the economy – the contribution made by each of these sectors makes up the structural composition of the economy.

MODERNIZATION

- Steps taken by a factory to increase output by using a new type of machine and technology is called modernization.
- Modernisation also leads to changes in social outlook such as the recognition that women should have the same rights as men.

SELF RELIANCE

- A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations.
- The **first seven five year plans gave importance to self-reliance** which means avoiding imports of those goods which could be produced in India itself, **in order to reduce our dependence** on foreign countries, especially for food.
- There was a fear that dependence on imported food supplies, foreign technology and foreign capital may make **India's sovereignty vulnerable to foreign interference** in our policies.
- Recently, PM stressed for a self-reliant **India (Atma Nirbhar Bharat)** in the backdrop of the Covid-19 outbreak.

EQUITY

- To ensure that **the benefits of economic prosperity reach the poor sections** as well instead of being enjoyed only by the rich – **every Indian should be able to meet his or her basic needs** such as food, a decent house, education and health care; and reducing inequality in the distribution of wealth.

OBJECTIVES OF PLANNING

- **Economic and social planning** and ensuring pattern of the **'welfare state'.**
- Sustainable economic growth.
- Poverty alleviation
- **Employment generation** and self-employment
- **Modernising** the traditional economy was set as a foremost objective of planning especially the agriculture sector
- Accord due place and weightage to all the **aspirations of the Preamble**, the **Fundamental Duties**, the **Fundamental Rights** and the **Directive Principles of the State Policy** – adequate means of livelihood, opportunities for employment and a socio-economic order based on justice and equality.
- **Self-reliance –** an effort to strike against a subordinate position in the world economy.
- Ensuring **economic equality**

FINANCIAL RESOURCES FOR PLANNING

- Central budget and state budgets – revenue and capital receipt side
- Public Sector Enterprises (PSEs)
- Domestic private sector

- **Gross Budgetary Support** – This is an amount from the central budget which goes to fund the planned investment during the plan period.
- **Foreign Direct Investment (FDI)** in India

PRIME MOVING FORCE – AGRICULTURE VS. INDUSTRY

- The government of the time **opted for industry** to be India's prime moving force of the economy.
- Given the available resource base it seems an **illogical decision** as **India lacked all those prerequisites** which could suggest the declaration of industry as its prime mover –
- Almost no presence in the infrastructure sector.
- Lack of robust infrastructure industries, i.e., iron and steel, cement, coal, crude oil, oil refining and electricity.
- Lack of availability of investible capital – either by the government or the private sector.
- Absence of required technology to support the process of industrialisation and lack of research and development.
- Lack of skilled and semi-skilled manpower.
- Lack of entrepreneurship spirit among the people.
- Lack of a market for industrial goods.
- Many other socio-psychological factors which acted as negative forces for the proper industrialisation of the economy.

The obvious choice for India would have been the agriculture sector as the prime moving force of the economy because:

- The country was having the natural resource of fertile land which was fit for cultivation.
- Human capital did not require any kind of higher training.
- Higher population in rural areas with involvement in agriculture
- Just by organising our land ownership, irrigation and other inputs to agriculture, India could have gone for better prospects of development.
- Once the masses were able to achieve a level of purchasing capacity through remunerative income from agriculture, India could have gone for the expansion of industries.

Following developments were in favour of industrialisation –

- By choosing industry as the prime moving force, India opted to industrialise the economy as well as modernise the traditional mode of farming.
- The dominant ideology around the world as well as in the WB (World Bank) and the IMF (International Monetary Fund) was in favour of industrialisation as a means to faster growth and development.
- The Second World War had proved the supremacy of defence power – which needs support not just of science and technology, but also of a robust industrial base.
- India also required a powerful defence base for herself as a deterrent force.
- By the time of independence the might of industrialisation was already proven and there were no doubts regarding its efficacy.
- A major shift took place in the Indian economic landscape, when the government announced in **2002** that from now onwards, in place of industry, **agriculture will be the prime moving force of the economy.**
- According to the Planning Commission such a policy shift will **solve the following major challenges** faced by the economy:
- Economy will be able to **achieve food security** with the increase in agricultural production.
- The agricultural surplus will **generate exports in the globalising world** economy benefiting out of the WTO (World Trade Organisation) regime.
- The challenge of **poverty alleviation** will be solved to a great extent as the emphasis will make agriculture a **remunerative occupation** and induce **growth in the rural economy** by generating more gainful employment.
- The situation of India as an example of 'market failure' will cease.

Reasons for BoP Crisis

India faced the Balance of Payment crisis in 1991 due to huge macroeconomic imbalance. Balance of Payment (BoP) Crisis is also called currency crisis. It occurs when a nation is unable to pay for essential imports or service its external debt payments. This article throws light on the many causes behind the Balance of Payment Crisis India faced in 1991.

What were the Causes of the Balance of Payment Crisis 1991?

There was a huge Macroeconomic imbalance of high current account deficit and high fiscal deficit. The crisis did not develop overnight. It was caused by decades of imprudence. There was reliance on populist measures. The causes of Balance of Payment Crisis are listed below.

1. The Government Expenditure was more than the earnings. Hence the Fiscal Deficit was high. The Gross Fiscal deficit rose from 9 % of GDP in 1980-81 to 12.7 % of GDP in 1990-91.
2. The Internal Debt of the Government rose due to the above reason. It rose from 35 % of GDP in 1985-86 to 53 % of GDP in 1990-91.
3. In addition the country was importing more than exporting. Hence the Current Account Deficit was high.
4. The current account deficit was triggered by the rise in crude oil prices because of the Gulf War. Due to this, the Forex Reserves of India depleted massively. Despite substantial borrowings from the International Monetary Fund (IMF) earlier in the year.
5. By June 1991, India had less than $ 1 billion forex reserves, just sufficient to meet import requirements for a period of 3 weeks.
6. India did not have enough Forex reserves to conduct business with the world.
7. India was on the verge of defaulting on its International Debt Obligations.
8. Investors pulled out their money.
9. Short term credit dried up, as exporters were apprehensive that they would not be paid.
10. There was a massive rise in inflation rates.

The **above crisis** was treated as **Balance of Payment Crisis.**
The effects of the Balance of Payment Crisis are mentioned below.

1. Imports were restricted.
2. The price of fuels were raised.
3. Bank rates were raised.
4. Government had to cut its spending.
5. India had to secure an emergency loan of $ 2.2 billion from the International Monetary Fund by pledging 67 tonnes of Gold as collateral security.
6. In May 1991, India sent 20 tonnes of Gold to Union Bank of Switzerland, Zurich and in July, 47 tonnes of Gold was given to Bank of England to raise a total of $ 600 million.

What did Manmohan Singh do in 1991?

The Government of India led by PV Narasimha Rao, with Manmohan Singh as Finance Minister initiated a 4 pronged strategy to put the economy back on track.

Industrial Policy Reforms

1. License Raj and Inspector Raj were removed.
2. Industrial licensing was abolished.
3. Measures were taken to ease domestic supply constraints.
4. Measures were taken to spur investments.

Trade Policy Reforms

1. To make exports competitive Rupee was devalued by 20%.
2. Licensing controls and regulations on exports were eased.

Public Sector Reforms

1. There was liberalisation of Foreign Direct Investment (FDI).
2. Public Sector companies were given more operational freedom to scale up and make bigger contributions to the economy.

Planning Commission vs NITI Aayog

In March 1950, the Government of India passed a resolution establishing the Planning Commission. It was created to help the government accomplish its stated goals of fostering a quick improvement in the people's quality of life by effective exploitation of the country's resources, greater output, and giving opportunities for everybody to participate in the community's service. The Planning Commission was tasked with assessing all of the country's resources; supplementing those that were insufficient; devising plans for the most efficient and balanced use of resources, and deciding priorities. **In 1951, the country's first five-year plan was implemented. The Indian government replaced the Planning Commission, which was created in 1950, with the NITI Aayog. This action was taken to better fulfill the people's needs and ambitions *with a focus on a "Bottom-Up" approach to envision the goal of Maximum Governance, Minimum Government, mirroring the spirit of "Cooperative Federalism."*.** The Government of India's top policy think tank, NITI Aayog, provides directional and policy suggestions. NITI Aayog offers appropriate technical assistance to the Centre, States, and Union Territories in addition to creating strategic and long-term policies and programs for the Government of India. This action was taken to better fulfill the people's needs and ambitions. NITI Aayog is a significant evolutionary development in that it serves as the Government of India's primary platform for bringing the States together in the national interest, fostering cooperative federalism.

Concepts adopted by NITI Aayog differ from the Planning Commission:

1. Organization:

A deputy chairperson, a member secretary, and full-time members make up the Planning Commission. The regular procedure is used to nominate secretaries or member secretaries. **New CEO and Vice-Chairperson positions have been created at NITI Aayog.** There will be five full-time and two part-time members. Ex-officio members will include four cabinet ministers. The Prime Minister appoints the CEO directly. The position of CEO is equivalent to that of a Secretary. Ex-officio members would be four Cabinet members. Two part-time members and five full-time members make up the NITI Aayog.

***2. Planning*:**

With public sector resources, the Planning Commission favors top-down planning for government. In a market economy that is connected with the globalized globe, the NITI Aayog develops national development strategies. Recognizing the states' rising autonomy and responsibility, the NITI Aayog recognizes and allows for more engagement by states and other stakeholders (civil society). Furthermore, one of the key pillars of the NITI Aayog is openness and e-governance, which contrasts sharply with the old Planning Commission's planning style.

3. Finance and States' Role:

With the introduction of the Planning Commission, the role of the Finance Commission was severely decreased. The Planning Commission was in charge of allocating monies. The NITI Aayog has no responsibility for the allotment of funds. The Finance Ministry will decide on the tax portion that states will get, as well as money distribution and Union support. The Planning Commission had the authority to provide funding to state governments and several central government ministries for a variety of national and state-level programs and projects. **The Planning Commission developed policies first, and subsequently, state governments were consulted on funding allocations for programs and projects.** The ultimate policy will produce fruit at NITI Aayog following adequate discussions with state governments throughout the policy formation stage. **NITI Aayog offers appropriate technical assistance to the Centre, States, and Union Territories in addition to creating strategic and long-term policies and programs for the Government of India.**

4. Reporting and Constitution:

The National Development Council, which included State Chief Ministers and Lieutenant Governors, reported to the Planning Commission. The Governing Council of NITI Aayog consists of State Chief Ministers and Lieutenant Governors. The Planning Commission, which is now defunct, was an Executive Body. Because it is not named in the Indian Constitution and was not constituted by an Act of Parliament, NITI Aayog is likewise an Executive Body. However, it may be turned into a Statutory Body if necessary by passing a statute in Parliament; UIDAI is one example.

5. *Good governance principles include*:

The governance principles adopted by the two planning organizations are perhaps the most important variation between them. **The modern NITI Aayog aspires to foster an open, transparent, responsible, proactive, and purposeful governing approach. In the case of the former Planning Commission, these concepts were there in theory but mostly lacking in practice.** The former Planning Commission was founded as 'a staff agency', but over time it grew into a strong and directive body, deficient in good governance norms.

6. *Key role and objectives*:

Albeit, the former Planning Commission worked as an extra-Constitutional body with broad powers over financial allocation and use, the NITI Aayog (while non-constitutional) has a more consultative role and a lesser executive role. Its **primary function is that of a "think tank**." While the PC has considerable executive powers, the NITI Aayog functions as a policy research organization that assists the government (executive) in devising effective policies for the creation of a "new India."

7. *The number of participants*:

There were eight full-time members on the previous Planning Commission. The number of full-time members on the NITI Aayog board might be lower than those on the Planning Commission.

Conclusion:

With changing conditions, new ideas (such as sustainable development and cooperative federalism) were added to the planning objectives, resulting in the formation of NITI Aayog. However, the Planning Commission's contributions to the nation's progress must not be overlooked. In addition, several flaws in the operation of NITI Aayog must be addressed as soon as possible. The NITI Aayog's replacement of the Planning Commission will help shift the focus away from projects and programs and toward policies and institutions, from spending inputs to real results through stronger governance, and away from political squabbling over incremental appropriations and toward new challenges and possibilities.

Aatmnirbhar Bharat

Atmanirbhar Bharat Abhiyan (Self-reliant India Mission) is a campaign launched by the Central Government of India which included an Rs.20 lakh crore economic stimulus package and a number of reform proposals.

As part of the relief measures in the aftermath of COVID-19, the Prime Minister announced a special economic package and gave a clarion call for "***Atmanirbhar Bharat***" or **"Self-reliant India".**

He noted that this package totals Rs 20 lakh crore, including the government's recent announcements on supporting key sectors and measures by the Reserve Bank of India, which is equivalent to almost **10% *of India's GDP***.

Meaning of Atmanirbhar Bharat Abhiyan

The meaning of the term '***Atmanirbhar Bharat'*** is ***self-reliant India***.

In his speech, the Prime Minister observed that to fulfil the dream of making the 21st century India's, the way forward is through ensuring that the country becomes self-reliant.

Significance of Atmanirbhar Bharat Abhiyan

- Talking about ***turning a crisis into an opportunity***, he gave the example that the production of PPE kits and N-95 masks in India has gone up from almost being negligible to 2 lakh each, daily.
- Remaking that ***self-reliance is the only way out for India***, the PM quoted from our scriptures "***Eshah Panthah***", that is – self-sufficient India.
- ***Self-reliance will make globalization human-centric***. The definition of self-reliance has changed in a globalized world and it is different from being self-centred. India's

fundamental thinking and tradition of "***Vasudhaiva Kutumbakam***" provides a ray of hope to the world. This should be seen in the context of Human-Centric Globalization versus Economy Centralized Globalization.

- Self-reliance does not mean cutting India off from the world. India believes in the welfare of the world and India's progress is linked with the world. The world trusts that India has a lot to contribute to the development of the entire humanity.
- The PM also stressed the need to be vocal about local products and urged people to buy only local products.

Five Pillars of a Self-reliant India

- Bold reforms across sectors will drive the country's push towards self-reliance.
- To spur growth and to build a self-reliant India, Atmanirbhar Bharat Abhiyan rests on 5 important pillars.
    - ***Economy***: contemplates not an Incremental change but a quantum leap so that we can convert the current adversity into an advantage.
    - ***Infrastructure***: that can be an image of modern India or it can be the identity of India.
    - ***Systems***: driven by 21st-century technology, and that is not based on old rules.
    - ***Democracy***: a vibrant democracy that is the source of energy to make India self-reliant.
    - ***Demand***: where the strength of our demand and supply chain is utilized intelligently.

The reforms and stimulus measures under Rs 20 lakh crore package were subsequently elaborated by the Finance Minister in five tranches.

Apart from the above, under Atmanirbhar Bharat Abhiyan decisions are also made to reform labour, agriculture, coal sector etc.

Labour sector reforms

- To avoid regional disparity in minimum wages, **National Floor Wage** to be introduced.
- An appointment letter is to be provided to all workers to promote formalization.
- Occupational Safety & Health (OSH) code to cover all establishments engaged in hazardous work.
- Definition of the inter-state migrant worker to include migrant workers employed directly by the employer.
- ESIC coverage will be extended to all districts and all establishments employing 10 or more employees as against those in notified districts/areas only.
- Mandatory ESIC coverage for employees in hazardous industries with less than 10 employees.
- Introduction of re-skilling funds for retrenched employees.
- Provision for Social Security Fund for unorganized workers.
- Provision of gratuity on completion of one-year service as against 5 years.

Agriculture Marketing Reforms to provide choices to farmers

- Now, farmers are bound to sell agricultural produce only to licensees in APMCs.
- A law will be formulated to provide choices to farmers to sell produce at an attractive price and enable barrier-free inter-state trade.
- The legal framework will be created towards contract farming and enable farmers to engage with processors, aggregators, large retailers, exporters in a fair and transparent manner.
- Risk mitigation for farmers assured returns and quality standardization to be an integral part of the framework.

Coal sector reforms

- Introduction of commercial mining in the coal sector through a revenue-sharing mechanism instead of the regime of fixed Rupee/tonne

- To lower impact on the environment, coal gasification and liquefication will be incentivized through rebate in revenue share
- Coal Bed Methane (CBM) extraction rights to be auctioned from Coal India Limited's (CIL) coal mines.

Self-reliance in defence production

- Ban the import of several weapons and a separate budget provisioning for domestic capital procurement to help reduce the huge defence import bill.
- Corporatize the Ordnance Factory Board to improve autonomy, accountability, and efficiency.
- Increased FDI limit in the defence manufacturing under the automatic route from 49 percent to 74 percent.

Aircraft and airspace sector

- Restrictions on the utilization of the Indian airspace will be eased so that civilian flying becomes more efficient.
- Development of world-class airports through PPP,
- The tax regime for Aircraft Maintenance, Repair, and Overhaul ecosystem is rationalized and the convergence between the defence sector and the civil MROs will be established to create economies of scale.
- Boosting private participation in space activities. The private sector will be allowed to use ISRO facilities and other relevant assets to improve their capacities.

Technology-driven education

- **PM *e*-VIDYA** — a program for multi-mode access to digital/online education — will be launched. The program will comprise one earmarked TV channel per class from 1 to 12. Special e-content will be prepared for the visually and hearing impaired. Top 100 universities will be permitted to automatically start online courses by 30 May 2020.
- ***Manodarpan***, an initiative for psycho-social support of students, teachers, and families for mental health and emotional wellbeing, will also be launched simultaneously.
- ***National Foundational Literacy and Numeracy Mission*** will be launched in December 2020 to ensure that every child attains learning levels and outcomes in grade 5 by 2025.

Ease of doing business related measures

- The minimum threshold to initiate insolvency proceedings raised to Rs 1 crore
- Suspension of fresh initiation of insolvency proceedings up to one year.
- Special insolvency resolution framework for MSMEs to be notified soon.
- Decriminalization of violations under Companies Act
- Allow direct listing of securities by Indian public companies in permissible foreign jurisdictions.
- The government will announce a new, coherent policy where all sectors are open to the private sector while public sector enterprises (PSEs) will play an important role in defined areas.
- A list of strategic sectors requiring the presence of PSEs in the public interest will be notified.
- In strategic sectors, at least one enterprise will remain in the public sector but the private sector will also be allowed.
- In other sectors, PSEs will be privatized.

Parallels with Swadeshi Movement and need for Self-reliance

- The call self-reliance can be compared with the Swadeshi movement and we can find that it is a relatable response to the evolving political and economic currents in a globalized world.
- If Swadeshi was the rejection of the colonial exploitation of India and criticism of the Western model of Capitalism based economic growth, ***Atmanirbhar Bharat is an attempt to find India's legitimate place*** in a rapidly changing world.

- Atmanirbhar Bharat like the Swadeshi movement is a program that is against the unrestricted import of Western thinking and economic models but is not averse to technology. It stands for modernization, but without unbridled Westernisation.
- The clarion call '**Vocal for local**' needs to be seen as a response to the anticipated changes in geopolitical order in the post-COVID world.
- The COVID crisis has shown the ***failings of multilateral and regional institutions*** and also the ineffectiveness of trade barriers and standalone economic models.
- ***Indian entrepreneurship*** must be freed from the shackles by adopting suitable governance models and reforming laws.
- The 'new Swadeshi' must transform local industries to connect the ever-changing global trade structure and lead to '***glocalization***' that serves local and global markets.
- Some early signs of this development were seen during the COVID crisis where India's position as the 'pharmacy of the developing world' was cemented. The importance of self-reliance was also seen in the self-sufficiency for food especially cereals, the lack of which would have exasperated the current crisis.

Criticism of Atmanirbhar Bharat Abhiyan

- ***Inflated figures***
  - Several opposition leaders pointed out that as per the calculations by many economists, the actual government expenditure in the Atmanirbhar package is just 1%.
  - The actions of RBI were included as part of the government's fiscal package whereas government expenditure and RBI's actions cannot be clubbed together.
- ***Need to spend more***
  - The Indian economy is likely to contract and the Gross Value Added across sectors is likely to fall. According to an assessment by Prof N R Bhanumurthy of the National Institute of Public Finance and Policy (NIPFP), India's GVA will contract by 13% this year under the Base case scenario (The Base case scenario refers to a scenario where governments bring down their expenditure in line with their falling revenues to maintain their fiscal deficit target).
  - Several economists suggest that the government needs to spend much more to prevent an economic contraction. Higher public spending will come at the cost of higher levels of fiscal deficits and higher inflation, but a growth contraction will cause even worse outcomes in the form of widespread economic ruin.
- ***Credit easing will not work immediately***
  - Direct expenditure by a government such as direct benefit transfer or by construction will mean that money reaches the people.
  - But credit easing by the RBI is not direct government expenditure and banks will be hesitant to lend the money available with them.
- ***Nothing to stimulate demand –*** many economists have opined that the government stimulus tries to resolve only supply-side issues. There is nothing to generate demand. This could only be done by putting money in the hands of people.
- ***Modest MSME package*** – according to opposition leaders, the MSME package was modest and the measures were skewed in favour of the larger ones. Moreover, the unorganized sector was not catered to.
- ***Insufficient support for the state governments*** – the state governments which are at the forefront of fighting the pandemic have not been supported adequately via fund transfers.
- ***A remodelling of Make in India Campaign*** – The self-reliant India campaign is criticized by many as a re-modelling of the Make in India Campaign – which didn't produce expected results – with some addon-on.
- ***The philosophy of self-reliance:*** India, like most countries, has been following the principles of globalisation since the LPG reforms in 1991. Even though the globalised

world shrank into isolated countries in the COVID19 period, it is yet to be seen if self-reliance can be adopted as a viable economic policy by a country like India, post-COVID.

Problem of Unorganised Sector

Today's Indian economy is hugely based on the existence of the informal or unorganized sector.
The Commission demonstrated a specific block of categories of unorganized labour consisting of the construction workers, a labourer of small-scale industry, casual employment, the power loom workers, employees in shops and commercial establishments, sweepers and scavengers, workers in tanneries, the tribal labourer and the other unprotected labour.

Also, their reports profoundly stated that this sector is full of causal labour, mostly consisting of small jobs at meagre wages. There is no job security and social benefit.
The National Sample Survey Organization (NSSO) conducts thorough surveys of these unorganized sections at a regular interval and has observed that the manufacturing industries which do not come under the Annual Survey of Industries (ASI) are counted in the unorganized sector.
Also, for the service-providing sectors, (except the one who are run by the government) are categorized under the unorganized sector.

Characterization and categorization of the Unorganized sector

The unorganized sector is not independent or exclusive. It is dependent on the organized industry and the economy as a whole. Many factors work as a bridge for these two like capital investment and output requirements, rate of employment, marketing etc.
The unorganized labour is almost disturbing in both stances as of employment rates and wages. The seasonal deficiency of job availability makes it even worse for those people. Many do not yet have stable and secured means of income and thus no plan for an annual fund.
Most of the times, the work areas are not well maintained. Also, migration is a dominating trait of the unorganized sector. The migrant labours face genuine hardships and often shuffle through various geographical locations in search of a job. None of the informal sector businesses has pen and paper contracts. There aren't any formal employer-employee contracts in the unorganized sector. Thus, they often get violated.
The social issues also add to the crisis. The religious and communal issues lead to partiality in fields of job availability and facilities. They often also struggle against debt, which happens to be a prevalent issue on their end.
Sometimes, they are subjected to severe exploitation by the employees. The companies tend to drain the most out of them without thinking about their minimum necessities. History of this unorganized sector proves the seriousness of the situation.
There have been several suicides due to debt, and illiteracy has always been a naturally induced condition to them. Poverty, lack of hygiene and worse health condition summarize the present status of the informal sector employees. The unorganized workers also never received the proper attention from the trade unions. Thus, left stranded and unrepresented, they still reside in the dark.

Who finances the Unorganized sector of India?

The unorganized manufacturing sector of industries is currently void of capital. As they have failed to get access to the organized fundings of finance, they instead borrowed off from the unorganized credit market at high-interest rates. This comparatively big raise in the capital has caused the government to intervene.
Both public and private commercial banks and as well as central and state-level have started offering loans to the unorganized sectors like self-help communities and cooperation groups at really low-interest rates. However, the share of these resources in the total amount of investments for the unorganized manufacturing sector has increased steeply.
The informal financial sources generally include funds available from the family or moneylenders who operate outside the legal and policy framework of banks.
Apart from this, the chit fund is another form of credit source operated by groups of people for mutual benefit; but this approach has its limitations. Credit in the informal system is usually available on tap.
The loans are granted mostly without collateral, and lengthy documentation formalities as the lender depend mainly on the personal knowledge of and contact with, the borrower.

However, over the years, a few NGOs have engaged themselves in activities related to community mobilization for savings and credit-related operations targeted at some groups in the rural sector.

Disadvantages of the Unorganized sector

As we know, the Unorganized sector has almost no support from the government, and that makes it all the more difficult for the entire industry. Less wage is a huge problem. Not helping the matter, their employment is often subjected to insecurity, and the employees can be sacked anytime without any proper reason.

There is no availability of necessary facilities like overtime payment, paid leave, sick leave etc. There is not much adequate job security either, and the working hours are often too long. All these impose a severe threat to the physical condition of the labourers.

Effect of Globalization on the Unorganized sector

Globalization policies in recent years have been adopted in India as an attempt to increase the informal sector. The launch of globalization saw a subtle growth in the employment rates of the unorganized sector.

However, void of the idea of permanent workers, these industries target employees with low wages and long working hours. Some non-government organizations and social movements also invested in such activities for the welfare of the unorganized sector workers. So even though the numbers changed positively, the wage and the work duration affected the informal sector negatively.

How to improve the Unorganized section

There is a lot to be done as the informal section holds a significant share in the graph of the employment. Firstly, the wages need to be taken care of care. There has to be a definite pay scale specified for each category of labour.

The schedule for payment also has to be fixed and secured. Regular payment of wages is an essential factor for uplifting the poverty prevailing.

The duration of labour needs to be rightfully set, and one should get overtime pay for overtime work. Necessary employment facilities should be made available to all, including sick leave and paid leave. Job security should be more strengthened.

Medical and health facilities are also needed to be provided. Often, they work in unhygienic and suffocating conditions leading to severe health conditions. Thus, a better work environment is a must-have.

The government should also try to provide them with retirement benefits if possible.

Conclusion

The national statistics mostly states that approximately 93% of the working population are from the unorganized or informal sector; among which 60% is from agriculture industry alone. This points out how much important it is to develop this sector immediately as we cannot afford to lose our most important industry to the threat it poses. Even worse, the rates are increasing every year.

The discriminated and low waged market has to be uprooted entirely. And even though they are the ones making the most contribution to the GDP, they are the ones getting the most trodden on at the end of the chain.

Even though the government is continually making new efforts to introduce new beneficiary policies for these marginalized people, it's still hard to make a visibly positive impact any time soon.

More job vacancies are needed, and the literacy rate of these informal sector employees need to increase as well. Literacy is the best way out of poverty, and the unorganized sector needs more of that.

That was all about the Unorganized sector in India. Hopefully, this article helped you explore the dynamics of this topic. For any doubt regarding the same, let us know through the comment section below.

Shapes of Economic Recovery

As India is going to come out of the Covid-19 lockdown, experts are debating over the shape of recovery of Indian economy.

Key Points

- The economists are unanimous that in the current financial year 2020-21, India's economy will contract.
    - According to the World Bank's South Asia Economic Focus report, India's growth is likely to remain at 1.5-2.8% in 2020-21 which is the slowest since 1991 economic reforms.
- Many economists are also of the opinion that after hitting the bottom this year, the Indian economy will start its recovery in the next financial year (2021-22).
- However, according to an analysis by Pronab Sen, former Chief Statistician of India, India's economy will contract not just in the financial year 2020-21 but also in 2021-22.
    - This means that India could experience a full-blown depression – the first in India's history as an independent nation.
    - The Table shows India's absolute Gross Domestic Product (GDP) is likely to struggle to even come back to the 2019-20 level by 2023-24.
    - India is likely to end up with an "elongated U-shape" recovery due to the weakness of the economy going into the Covid crisis as well as the inadequate fiscal stimulus measure taken by the government.
    - The Table also provides a snapshot of the likely trend level of GDP had India grown at 6% and 8% respectively over the same period.

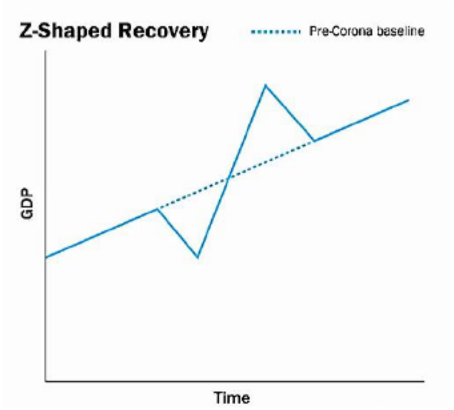
YEAR	Likely growth rate of GDP (in %)	Likely absolute GDP in Rs Trillion*	Absolute GDP at 6% growth (Rs Trillion)	Absolute GDP at 8% growth (Rs Trillion)
2019-20 (pre-Covid)	5	207		
2019-20 (post-Covid)	3	203		
2020-21	—12	178	219	224
2021-22	—9	163	233	242
2022-23	6	172	247	261
2023-24	6	183	261	282

- Other economists are of the view that it is difficult to predict the shape of economic recovery in India at this juncture as there are too many unknowns.
    - If there is no second wave of Covid-19, India can expect swift normalization from negative growth levels to the pre-covid levels of 5% and a gradual recovery to 7% by the second half of the next fiscal (2021-22).

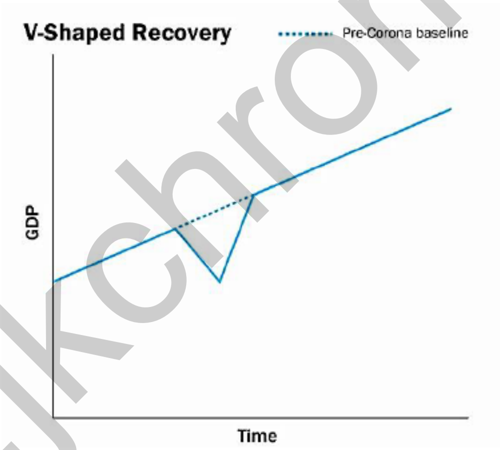
Types of Shape of Economic Recovery

- Economic recovery can take many forms, which is depicted using alphabetic notations. For example, a **Z-shaped recovery, V-shaped recovery, U-shaped recovery, elongated U-shaped recovery, W-shaped recovery** and **L-shaped recovery**.
- The **alphabets generally denote the graph of growth rate,** which resembles the shape of the letter.
- The fundamental difference between the different kinds of recovery is the **time taken for economic activity to normalize.**
    - The time taken is often a factor of multiple things such as the depth of the economic crisis. e.g deeper the recession, longer is the time to get back to normal.
- The other aspect of economic recovery includes the effect of pandemic on jobs and household incomes, and the kind of policy response taken by the government that determines how quickly economic growth will recover.

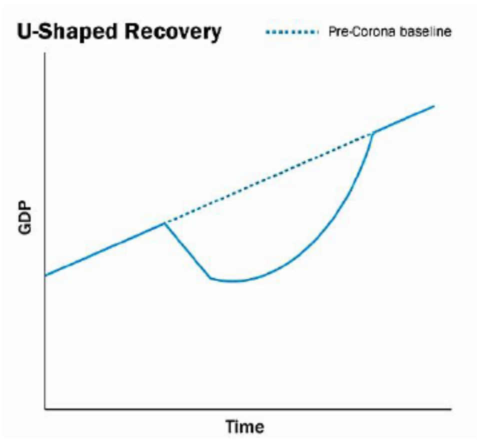
- Z-shaped recovery: It is the most-optimistic scenario in which the economy quickly rises after an economic crash.
  - It makes up more than for lost ground before settling back to the normal trend-line, thus forming a Z-shaped chart.
  - In this economic disruption lasts for a small period wherein more than people's incomes, it is their ability to spend is restricted.



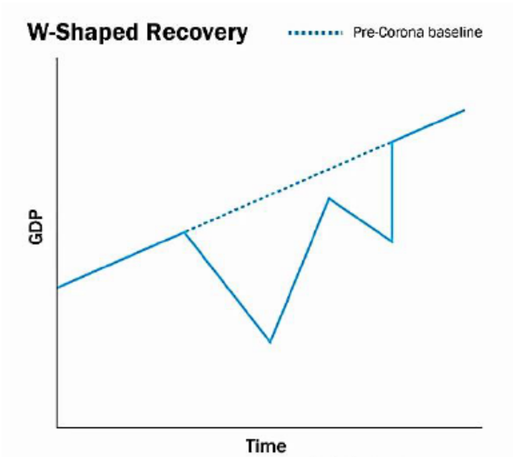
- **V-shaped recovery:** It is the next-best scenario after Z-shaped recovery in which the economy quickly recoups lost ground and gets back to the normal growth trend-line.
  - In this, incomes and jobs are not permanently lost, and the economic growth recovers sharply and returns to the path it was following before the disruption.



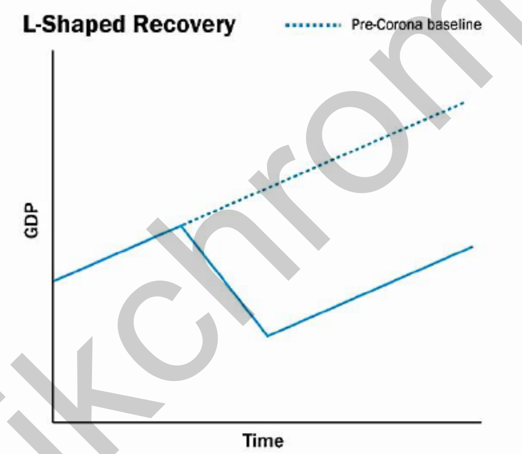
- **U-shaped recovery**: It is a scenario in which the economy, after falling, struggles around a low growth rate for some time, before rising gradually to usual levels.
  - In this case several jobs are lost and people fall upon their savings.
  - If this process is more-long drawn than it throws up the **"elongated U" shape.**



- **W-shaped recovery:** A W-shaped recovery is a dangerous creature. In this, growth falls and rises, but falls again before recovering, thus forming a W-like chart.
    - The double-dip depicted by a W-shaped recovery can be due to the second wave of the pandemic.



- **L-shaped recovery:** In this, the economy fails to regain the level of GDP even after years go by.
    - The shape shows that there is a permanent loss to the economy's ability to produce.

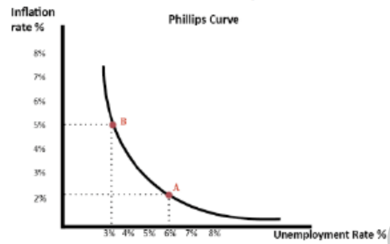


Inflation

- Sustained/persistent/continuous **rise in the general price level** of goods and services in an economy over a period of time.
- Increase in prices of particular **basket** of goods and services.
- It **reduces savings, pushes up interest rates, dampens investments and reduces purchasing power of money**.

Key Terms

Terms	Description
Deflation	• It is a **decrease** in the general price levels of goods and services. • It is opposite of Inflation. Inflation rate is negative (below 0%). • Considered bad for economy as it may lead to recession.
Disinflation	• It is **decrease in Inflation rate**. • Prices of goods and services do not fall. Their price rises but overall rate is declining • **Inflation is positive**. However, rate of inflation slows down (for example from 3% to 2%)
Stagflation	• Stagflation = High Inflation + High Unemployment + Stagnant Growth.
Skewflation	• When the price rise of one or a small group of commodities is relatively more than the other set of commodities. • e.g. Higher rise in prices of food items (onion, pulses, tomatoes etc) than non-food items.
Reflation	• Deliberate action [fiscal or monetary policy] to increase the rate of inflation to stimulate the economy. • Here the goal is to expand output, stimulate spending and curb the effects of deflation by reducing taxes, changing the money supply and lowering interest rates.
Inflationary Gap	• Separation/gap/difference between actual GDP and potential GDP • Actual GDP is higher than potential GDP. • Demand for goods and services is more than supply. • Occurs when economy is expanding • Policies such as – higher government spending, tax cuts, higher transfer payments, decrease in interest rates may lead to inflationary gap
Deflationary Gap	• Actual GDP is lower than potential GDP. • Demand for goods and services is less than supply. • Policies such as – lower government spending, tax increase, lower transfer payments, increase in interest rates may lead to deflationary gap
Inflationary Spiral (Wage – Price Spiral)	• When Wages press prices up and prices pull wages up • Relationship between rising labour costs and inflation • When inflation rises, workers demand increase in wages. Rising wages increase disposable income for workers. It leads to greater demand for goods and services which causes prices to rise.

	• Rising prices prompt workers to demand higher wages. The higher wages lead to higher production costs and the cycle repeats.
Deflationary Spiral	• When prices fall, profit of firm decreases. Firm may lower production, cut workers' wages, lay off- excess workers. It lowers aggregate demand leading to again decrease in prices and the cycle repeats.
Philips Curve	• There is inverse relationship between inflation and unemployment • Thus, increase in inflation reduces unemployment. 
Base effect	• Impact of price levels of previous year on calculation of current price levels. • Even if price rise is same, rate of inflation may increase or decrease due to choice of base (denominator) • e.g. - The price of a pen is Rs.10, Rs 11 & Rs 12 in year 2019, 2020 & 2021 respectively. Price rise is uniform Rs 1 per year. However, rate of inflation over previous year is 10% (2020) & 9.09% (2021)
Headline Inflation	• It is a measure of total inflation in an economy. • In India, Consumer Price Index Combined (CPI -C) represents Headline Inflation.
Core Inflation	• Core Inflation = Headline Inflation - food and fuel inflation. • It is also known as underlying inflation and measures long term trend in general price levels by factoring out temporary effect

Types of Inflation

Based on causes

1) Demand Pull Inflation
   - Price rise due to Aggregate Demand > Aggregate Supply.
   - Too much money chasing too few goods
   - Aggregate demand may increase due to – increase in government spending (rise in MGNERGA wages, PM KISAN), 7^{th} pay commission, lower interest rates etc.
2) Cost Push Inflation
   - Price rise due to rise in input costs
   - Increase in prices of raw material, wage hike, increased profit margin by firm, costlier imports etc
3) Structural Inflation (bottleneck Inflation)
   - Inflation built into the economic system due to government policies.
   - e.g. Under developed transportation sector will increase logistic cost and will result in overall increase in prices of commodities. Similarly, structural bottlenecks in agricultural sector such as APMCs, involvement of middlemen, imperfect price discovery leads to rise in food prices

Based on rate of increase in price rise

1. Creeping Inflation -

- prices rise by 3% or less per year. It's regarded safe and essential for job creation and economic growth.

2. Trotting Inflation
   - prices rise by 3% - 10% per year. Consumers start to buy more than they need to avoid higher prices in future.
3. Galloping Inflation
   - prices rise by 10% or more per year.
4. Hyperinflation
   - Very high inflation. rapid and unrestrained price increase. Out of control inflation.

Measurement of Inflation

<table>
<tr>
<td>Wholesale Price Index (WPI)</td>
<td>

WPI measures the inflation at wholesale level.
Base Year – 2011-12
Compiled and released by - Office of Economic Adviser, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.
It is compiled using Geometric Mean
Components of WPI

<table>
<tr><td>Major Components</td><td>Weights (Base Year 2011-12)</td></tr>
<tr><td>Primary Articles</td><td>22.62</td></tr>
<tr><td>Fuel & Power</td><td>13.15</td></tr>
<tr><td>Manufactured Products</td><td>64.23</td></tr>
</table>

WPI excludes – services, indirect taxes.
WPI food index (weight 24.38): - It consists of 'Food Articles' from Primary Articles (15.26) and 'Food Product' from Manufactured Products (9.12).

</td>
</tr>
<tr>
<td>Consumer Price Index (CPI)</td>
<td>

CPI measures the inflation at retail level.
It includes services

<table>
<tr><td>Index</td><td>Released by</td><td>Base Year</td><td>Food Component</td></tr>
<tr><td>CPI (IW)</td><td rowspan="3">Labour Bureau, Ministry of Labour and Employment</td><td>2016</td><td>39.17</td></tr>
<tr><td>CPI (AL)</td><td>1986-87</td><td></td></tr>
<tr><td>CPI (RL)</td><td>1986-87</td><td></td></tr>
<tr><td>CPI (R), (U), (C)</td><td>NSO, MoSPI</td><td>2012</td><td></td></tr>
</table>

CPI (IW) - used for calculating Dearness Allowances
CPI (AL) - used for indexing MGNREGA wages
CPI (C) - used as nominal anchor for conduct of monetary policy in India (Inflation Targeting)
Consumer Food Price Index (CFPI)

Rural – 47.25
Urban – 29.62
Combined – 39.06

</td>
</tr>
<tr>
<td>GDP Deflator</td>
<td>

GDP Deflator = (GDP at Current Prices/GDP at constant Price) * 100
It is a measure of general price inflation.

</td>
</tr>
</table>

	• GDP deflator is much more broader and comprehensive measure of inflation than CPI and WPI. GDP deflator reflects the prices of all domestically produced goods and services in the economy whereas, other measures like CPI and WPI are based on a limited basket of goods and services, thereby not representing the entire economy. • GDP deflator includes Services, the prices of investment goods, government services and exports, and excludes the price of imports. • Released by MoSPI
Other Indexes	
Producer Purchasing Index (PPI)	• Measures the average change in the price of goods and services which is received by the producers. • It includes Services and excludes indirect taxes. • PPI removes the multiple counting biases inherent in WPI
NHB Residex	• Housing Price Index to measure movement of residential property prices within a geographical boundary. • National Housing Bank publishes NHB RESIDEX for 50 cities on a quarterly basis • Base Year – 2017-18

Impact of Inflation

- Positively impact
    - Businessman and enterpreneurs – Profits may increase due to price rise.
    - Debtors (borrowers) - Inflation redistributes wealth from creditors to debtors
    - Moderate inflation stimulates economic growth
- Negatively Impact
    - Fixed income/salaried/pensioners
    - Lenders - Lenders suffers due to inflation. It is because the money they get paid back has less purchasing power than the money they loaned out.
    - Exporters – Inflation increases cost of production.

Measures to keep inflation under control

- RBI – Adopting Dear Money Policy (increasing interest rates)
- Government reducing taxes (Central Excise Duty) on diesel & petrol
- Essential Commodities Act/ APMC Reform
- Fiscal Consolidation
- Rationalization of subsidies
- Curbing corruption and Black Money