UNIT 13 STRUCTURE OF INDIAN ECONOMY

Structure

13.0 OBJECTIVES

After studying this unit you should be able to :

- describe the basic characteristics of Indian economy;
- explain the concepts of capitalistic, socialistic and mixed economy;
- outline the principal features of the mixed economy framework adopted by India;
- explain the concepts of economic growth and economic development;
- describe the trends of national income in India;
- outline the trends of savings and capital formation in the Indian economy;
- discuss the role of public sector in the Indian economy; and
- explain the concept of joint sector and it's share in productive capital, value added and corporate employment in India.

13.1 INTRODUCTION

You know that most underdeveloped countries are poor and their rate of capital information is hardly adequate for sustained development, and India is no exception. Almost all important characteristic features of an undeveloped economy were present in Indian economy on the eve of Independence. With the beginning of economic planning, an era of development ushered in. For acquainting oneself with the current state of Indian economy, one has to assess the development achieved during the five decades of economic planning and take note of the structural changes that have taken place during this period. In this unit you will learn about the nature of Indian economy, the economic system adopted, the trends in national income and its structure, and the trends in national savings and investment. In addition, you will learn about the role of public sector in building up a strong industrial base and the contribution of private sector and joint sector in development of the economy.

13.2 INDIA-AN UNDERDEVELOPED ECONOMY

The Indian economy is characterised as an underdeveloped economy. Though it no longer suffers from stagnation as it did under the British, the development since independence has not been spectacular. One fourth of the population still lives in conditions of misery, and poverty remains a chronic malady. A good amount of national resources still remain unutilized. In fact, almost all characteristic features of an underdeveloped economy are still present in the Indian economy. Let us analyse its basic characteristics.

Low per capita income : The per capita income in India in 2003 was $530. Barring a few countries, it is lowest in the world. The per capita income in 2003 in Switzerland, Germany and USA respectively was 75, 48 and 71 times the per capita income in India. During 1990-2003, Indian economy has grown at a faster rate than the developed economies but the difference in per capita income still remains very large

Occupational pattern-predominance of agriculture : A very large proportion of working population in India is engaged in agriculture. In 1999, about 61 per cent of the working population was engaged in agriculture and its contribution to national income was 28 per cent. The proportion of population engaged in agriculture in developed countries like UK, USA and Japan is much less. The same is true of their contribution to GDP. The reliance on agriculture in India is far greater than even in some third world countries like Indonesia, China, Brazil, etc.

Rapid population growth : The population of India has been growing at a fast rate. According to 2001 census, the total population is 102.5 crore as against 43.9 crore in 1961. The main cause of this rapid spurt of population growth is the steep fall in death rate without a corresponding decline in birth rate. The population explosion has offset the small gains of development that had been made during this period. It has resulted in high dependency ratio and increased labour force in the country.. In 1999, the percentage of population in working age group (15-64 years) was 61.1.

Chronic unemployment : On account of increasing population of working age group, it has been difficult to provide gainful employment to the entire working population. According to Planning Commission, the current daily unemployment at the end of 2001-02 was 3.49 crore. It is observed that while in developed countries, unemployment is of a cyclical nature and occurs due to lack of effective demand, it is chronic in India and results from the structural defects in the economy. It is also noticed that unemployment exists in a greater degree in urban areas. According to 55th round of NSS estimates, while the current daily status of unemployment rate for rural workers was 7.20 per cent in 1999-2000, it was 7.70 for urban workers. The main problem in rural areas is that a large number of workers do not have adequate work throughout the year and many of them suffer from open unemployment, and underemployment for long periods. Not only that, in agriculture much larger number of labourers are engaged than required and, thus, there exists `disguised' or `concealed' unemployment.

Deficiency of capital : Another basic characteristics of the Indian economy is the existence of capital deficiency which is reflected in two ways : (i) the amount available capital per head is low, and (ii) the rate of capital formation is low. The rates of gross domestic saving and gross domestic capital formation in 2001-02 was 23.7 and 23.1 per cent of GDP respectively. Though it is quite encouraging, it is much less than that of some of the East Asian Countries and, in the context of the rising population, is still not considered to be adequate for achieving the required rate of economic growth.

Maldistribution of wealth / assets : The Reserve Bank of India survey of assets of rural and urban households in India for the period July 1991 to June 1992 brings out the existence of sharp inequalities in asset distribution. In rural areas, 27 per cent of the households owning less than Rs. 20,000 worth of assets accounted for 2.4 per cent of the total assets, and about 24 per cent of households owning Rs. 20,000 to Rs. 50,000 accounted for merely 7.5 per cent of the total assets. As against this, 9.6 per cent of rich households (owning assets worth Rs. 2.5 lakh and above) accounted for nearly 49 per cent of the total assets. The situation in urban areas is much worse where 50.7 per cent of the urban households owning less than Rs. 50,000 worth of assets accounted for merely 5.3 per cent of the total assets, and 14.2 per cent of the rich household (owning assets worth Rs. 2.5 lakh and above) held merely 66 per cent of the total assets. This inequality of wealth distribution is the principal cause of inequitable distribution of income. It also signifies that resource base of 50 per cent of the household is so weak that it can hardly provide them anything above the subsistence level of income.

Poor quality of human capital : A glaring feature of an underdeveloped economy is the poor quality of human resource. Most of the underdeveloped countries suffer from mass illiteracy and India is no exception.. It goes without saying that a minimum level of education is necessary to acquire skills and also to comprehend social issues. Indian public expenditure on education and research and development in 1999-2001 was just 4.1 per cent of GDP. The corresponding figures in USA is 6 per cent of GDP. Human development is usually measured in terms of Human Development Index (HDI) constructed by UNDP which is based on the life expectancy, adult education and combined enrolment ratio, and real per capita GDP in US dollars. It is distressing to note that India has been ranked 127 in terms of HDI in 2002 while China ranked 94. Obviously, India has a longway to go before it reaches the level of developed countries.

Low level of technology : In an underdeveloped country like India majority of the manufacturing units use outdated and inferior techniques of production. Agriculture which provides subsistence to about two-thirds of the population, has low productivity mainly on account of technological backwardness. The vast majority of farmers are too poor to buy even the essential inputs, not to speak of affording the expensive equipment like sowing machines, harvesters and tractors. However, with liberalisation of economy and building up of substantial capabilities in science and technology, a large number of enterprises have started adopting modern technology for survival and growth.

13.3 THE INDIAN ECONOMIC SYSTEM

Soon after independence, the Indian leaders had to take a decision on the model of development to be followed. The choice was between socialism with complete ownership and control of the means of production by the state or capitalism with ownership of the means of production totally in the hands of the private sector with highly limited role of the state. The world had experience of these two models of development. The capitalistic model had been adopted by UK, USA and a large number of countries of Western Europe which emphasized the role of private free enterprise in economic development. It was widely held that what was most profitable for the individual was also good for the society and its economic welfare. Perfect harmony could be achieved through the acceptance of the invisible hand of self-interest and the use of the market forces of demand and supply. The socialistic model of development, on the other hand, was adopted in USSR in 1917 after the Russian Revolution and had been accepted in Eastern Europe and China. The model was inspired by the teachings of Karl Marx who believed that the capitalistic system allowed a few powerful capitalists (industrialists, landlords and big businessmen) to exploit the vast majority of workers. To rid the system from the exploitation of the capitalist class, all means of production should be brought under state ownership and control, and the economy would have no private enterprise based on self interest. It was described as the totalitarian model of development.

Keynes, however, thought that if some of the defects of the capitalist system were removed, it would become an advisable system as it helps to promote competition and efficiency in production. It was much better than the socialism of the authoritarian type which killed all individual initiative and deprived the individual of freedom, both economic and political. A compromise was, therefore, suggested between the high degree of state intervention promoted in socialist economy on the one hand and free enterprise capitalist economy on the other based on market forces. The Indian polity also rejected the command model of Soviet variety and favoured democrative socialism which envisaged mixed economy framework and was basically a compromise of the two diametrically opposite schools of thought.

Mixed Economy Framework for Indian Economy

The concept of mixed economy in India accepts the co-existence of public and private sectors. It also provides for a greater role of the state to direct economic activity as per the Directive Principles of the Indian Constitution which laid down that the state should strive "to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice-social, economic and political, shall form part of all institutions of national life". The concept, therefore, entailed the following :

Positive economic role of the state : The state, in order to implement the directions given in the Directive Principles, should ensure that the ownership and control of the material resources of the community is managed in such a manner that it leads to prevention of (a) concentration of wealth in the hands of a few, and (b) exploitation of labour. In areas which are crucial for the economy and in which private sector investment was not forthcoming, the state should enter the field of production. To protect the weaker sections against the exploitation by traders, the state is also expected to control the distribution of essential commodities. Thus, consideration of development, industrialisation and self-reliance impelled the state to undertake investment in the public sector and the consideration of social justice impelled it to control distribution in the larger interests of the society. The state also stepped in to control banking and insurance by promulgating nationalisation of insurance companies and also of banks. This helped the state to direct investment in socially desirable lines of production.

It was observed that since the development of infrastructural facilities like hydroelectric projects, irrigation and flood control, rail and road transport, communication, etc. required heavy capital investment with a long gestation period and low rate of return, the private sector was unwilling to make the necessary investments. The pubic sector was, therefore, assigned the role of developing the necessary infrastructural facilities. Besides, the state is also expected to take care of the social infrastructure in the form of education and health as it is equally important for promoting economic development and ensuring social justice.

Co-existence of public and private sectors : In India, the state demarcated the areas specified for the public and the private sector in Industrial Policy (1956). In the first category were included such industries whose development would be the exclusive responsibility of the state. In the second category were included industries which would be progressively state-owned, but the private sector may be permitted to supplement the effort of the state. In both of these categories, the state was expected to promote the rapid expansion of the public sector with a view to establish and develop industries of strategic and basic importance to the economy, and promote self-reliance. The state also undertook investment in transport, energy, water supply and electric energy – the areas of infrastructure, the nationalisation of 20 major commercial banks was another big effort to channelise investment in socially desirable lines of production. All other areas were left open for the private sector. Even in areas democrated for the public sector, the private sector could be permitted to supplement the efforts of the state. The Planning Commission rightly observed that, "In a planned economy, the distinction between the public and the private sector is one of emphasis. The two sectors are and must function as parts of a single organism". However, the public sector during the first four decades of development played the role of the senior partner.

In agriculture, the state, by and large, permitted ownership in the hands of individuals, but in order to limit the activities of big landlords imposed ceiling land holdings. The whole idea was to promote small peasant ownership so that exploitation by landlord aristocracy could be controlled.

The mixed economy framework as developed in India has been trying to reform the capitalist mode of production in order industrial to promote development, self-reliance, and equity with emphasis on helping the weaker sections of the society. In other words, some features of socialist mode of production were integrated into capitalistic mode of production and distribution so as to maximize the social as well as economic welfare.

Check Your Progress A

1 State which of the following statements are True or False.
   (a) India is now regarded as one of developed economies in the world.
   (b) A very large proportion of Indian population engaged in agriculture.
   (c) Unemployment exists in a greater degree in rural areas in India.
   (d) Mixed economy framework is basically a compromise between high degree of sate intervention in socialist economy and free enterprise capitalistic economy based on market forces.

(e) Barring a few countries, India ranks lowest in the world in matter of per capital income.

(f) Indian ranks amongst the first 50 underdeveloped countries in the world

2 Why did India adopt mixed economy model of development ?

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3 Enumerate the areas demarcated for the public sector in India during the first four decades of development.

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13.4 ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

The terms economic growth and economic development are often used interchangeably. But in fact these have different connotations. Let us understand the distinction between economic growth and economic development.

Economic growth refers to increases over time in the real output of goods and services. Output is generally measured by gross or net national product (GNP) or national income. Growth in output can be achieved by the use of larger inputs like land, labour and capital or by increase in the efficiency of their use. The study of economic growth is mainly concerned with enlarging the productive capacity of the economy. Dividing GNP by the total population gives us another measure of growth, i.e. per capita GNP. Similarly, dividing GNP by the working population provides us a measure of the productivity, i.e., output per unit of labour.

Economic development is a more comprehensive term. It implies not only a larger output of goods and services, i.e., a sustained increase in gross national product but also technical and institutional changes by which it is obtained and distributed. Economic development brings about changes in the composition of output, i.e., the relative shares of agriculture, industry and services in GNP and changes in the labour force (change in the occupational structure). It also means development of infrastructural facilities, both economic and social. It may be noted that while economic infrastructure implies the development of transport and communications, irrigation, power, housing, water supply and financial institutions (commercial banks, regional rural banks, Unit Trust of India, Industrial Finance Corporation, Industrial Development Bank of India and State Financial Corporation), the social infrastructure implies the development of education and training, and improvement in health facilities.

Thus, while economic growth merely involves a stress on quantitative measures such as gross national product and real output per capita, economic development implies economic growth along with changes in the distribution of gross national product and in the socio-economic structure. It stresses qualitative changes besides quantitative improvements in the economy.

According to Charles P. Kindleberger and Bruce Herrick, "Economic growth means more output, while economic development implies both more output and changes in the technical and institutional arrangements by which it is produced and distributed. Growth may well involve not only more output derived from greater amounts of inputs but also greater efficiency. Development goes beyond this to imply changes in the composition of output and in the allocation of inputs by sectors." Thus, economic development implies progressive changes in the socio-economic structure of a country along with increase in real output per capita over a period of time. It involves a steady decline in the share of the primary sector in gross domestic product and a corresponding increase in the share of secondary sector (industry, construction, electricity, gas and water supply) and tertiary sector (transport, trade, banking, social and community and personal services). This is normally accompanied by changes in occupational structure or distribution. In other words, during the process of economic development, a shift in the proportions of working population engaged in various sectors takes place along with improvement in the skill and productivity of labour.

In some of the underdeveloped countries, the process of economic growth has been accompanied by economic development. This, however, may not happen always because it is quite possible that a country produces more of the same type of goods and services to keep up with the growing population, while basic structure of the economy remains intact. But, development without growth is unconceivable. A substantial rise in a country's GNP is required before it can hope to expand its industries, financial institutions, trade, public utilities, etc.

Most of the underdeveloped countries of today have a colonial past and their growth pattern is quite similar in many respects. The essence of this pattern of growth is dualism, i.e., one sector or sub-sector experiencing perceptible growth while the rest of the economy does not. In the absence of any connection with the growth sectors of the economy, these countries had suffered a long period of stagnation. It would be relevant to observe that the Indian economy during the British rule experienced a growth rate of 0.5 per cent for the period 1860 to 1945 with practically zero or negative growth in per capita income. J.R. Hicks and others conclude: "The low growth rate during the pre-independence period seems to owe its origin to the decline in per capita income between 1865 and 1905 and between 1925 and 1950." This necessitated that, in the post-independence period, Government should make an effort to initiate the process of development. Various five year plans initiated after 1950 have resulted in raising growth rates of GNP as well as per capital GNP and also brought about changes in occupational structure and the distribution of national income over different sectors of the economy. We shall give a profile of the changes in national income, saving and investment in the subsequent sections.

13.5 TRENDS IN NATIONAL INCOME GROWTH AND ITS STRUCTURE

For a comparison of the real growth in national and per capita income, it would be necessary to compare national income figures at constant prices. Table 13.1 provides the figures of net national product (NNP) and per capita NNP at 1993-94 as well as current prices.

Table 13.1 : Net National Product at Factor Cost and Per Capita NNP

Year	At 1993-94 Prices		Index	At Current Prices	
	NNP (Rs. crores)	Per Capita NNP (Rs.)		NNP (Rs. crores)	Per Capita NNP (Rs.)
1950-51	1,32,379	3,687	100	9,144	255
1960-61	1,92,253	4,430	120	15,206	350
1970-71	2,70,623	5,002	136	38,973	720
1980-81	3,63,451	5,353	145	1,18,252	1,742
1990-91	6,14,386	7,323	199	4,50,280	5,367
1995-96	7,87,809	8,499	231	9,41,861	10,160
1999-2000	10,07,769	10,068	273	15,64,142	15,526
2000-2001	10,50,177	10,306	280	17,02,454	16,707
2001-2002	11,15,157	10,754	292	1,864,292	17,978
2002-2003	11,61,580	11,010	299	19,86,207	18,825
Rate of Growth (% p.a.)					
1950-51 to 1960-61	3.8	1.8		5.2	3.2
1960-61 to 1970-71	3.5	1.2		9.9	7.5
1970-71 to 1980-81	3.0	0.7		11.7	9.2
1980-81 to 1990-91	5.4	3.1		14.2	11.6
1990-91 to 2000-01	5.5	3.5		14.2	12.0
1950-51 to 1980-81	3.4	1.2		8.9	6.6
1980-81 to 2000-01	5.5	3.3		14.3	12.0
2001-02	6.2	4.3		9.5	7.6
2002-03	4.2	2.4		6.5	4.7

Source : Central statistical organisation, National Accounts Statistics

During the 30-year period (1950-51 to 1980-81), the average annual growth of national income (Net National Product) at 1993-94 prices was 3.4 per cent per annum and that of per capita income was merely 1,2 per cent per annum. Although the Second Five Year Plan, in its long-term vision, desired that in order to raise the living standards of the population it would be desirable to double the per capita income by 1977, the country lagged far behind the target and was able to achieve it by 1990-91, i.e., in a period of about 40 years. During 1950-51 and 1980-81, the rise in per capita income was only 45 per cent in a span of 30 years. This implies that our achievement was less than half the long-term vision made in the Second Plan. However, there was a significant improvement in the growth rate in the eighties and the nineties. NNP grew at the rate of 5.5 per cent during the 20-year period (1980-81 to 2000-01) and the per capita NNP grew by 3.3 per cent per annum. As a consequence, per capita income has increased by about 93 per cent during the last 20 years. This makes an improvement over our record during the first 30 years (1950-51 to 1980-81) of planning. The economy has reached a healthy state of development and has crossed the barrier of the Hindu rate of growth, to use the phrase coined by late Professor Raj Krishna, of 3-3.5 per cent.

13.5.1 Trends in Distribution of National Income by Industrial Origin

The composition of gross domestic product changes over time if the country is able to promote economic development. The greater the pace at which economic development takes place, the greater is the change in the composition of GDP by industrial origin. Table 13.2 brings about the changes in the composition of GDP over the last 50 years.

Table 13.2 : Share of Gross Domestic Product by Industrial Origin

(At 1993-94 Prices)

		Percentage Distribution		
		1950-51	1980-81	2001-02
1	Agriculture, etc.	57.7	39.7	23.9
	(a) Agriculture	50.2	35.8	21.9
	(b) Forestry	6.7	3.0	1.1
	(c) Fisheries	0.9	1.0	1.0
2	Mining, Manufacturing, etc.	14.8	23.7	26.6
	(a) Mining and quarrying	1.5	2.1	2.2
	(b) Manufacturing	8.9	13.8	16.8
	(i) Registered	4.4	8.1	11.1
	(ii) Unregistered	4.5	5.8	5.8
	(c) Electricity, gast and water supply	0.3	1.7	2.5
	(d) Construction	4.1	6.1	5.1
3	Transport, Communications and Trade, etc.	11.4	18.4	23.5
4	Finance and Real Estate	6.7	6.5	12.5
5	Community and Personal Services	9.4	11.7	13.5
A	Commodity Sector (1+2)	72.0	63.4	50.5
B	Service Sector (3+4+5)	28.0	36.6	49.5
	Total	**100.0**	**100.0**	**100.0**

Source: EPW Research Foundation (2002), *National Accounts Statistics of India (1950-51 to 2000-01)*.

The data provided in Table 13.2 reveals that significant changes in the composition of GDP have been observed during the last 50 years. These changes are:

1 The share of the primary sector which includes agriculture, forestry and fishery has gone down substantially from 57.7 per cent in 1950-51 to 23.9 per cent in 2001.02. Since agriculture contributes 93 per cent of share in the primary sector, it would be desirable to estimate the trend of contribution of agriculture to GDP. Agriculture alone contributed 50.2 per cent in 1950-51, but its share has come down to 21.9 per cent in 2001.02. It is really very disturbing that the share of forestry which was 6.7 per cent in 1950-51 came down to 1.1 per cent in 2001-02. This is due to our neglect of the forestry sector. The share of fisheries has remained stable around 1.0 per cent. This underlines the fact that, in the primary sector, agriculture is most important and the trend of change in agricultural output mainly determines the share of the primary sector in the national product.

2 The secondary sector is composed of mining, manufacturing, electricity, gas & water supply and construction. The share of the secondary sector has shown a steady increase from 14.8 per cent in 1950-51 to 23.7 per cent in 1980-81 and further to 26.6 per cent in 2001-02. Two major components of the secondary sector are manufacturing and construction. The share of manufacturing improved from about 9 per cent in 1950-51 to about 17 per cent in 2001-02. Manufacturing is further sub-divided into registered and unregistered sector. The share of registered units has gone up from 4.4 per cent in 1950-51 to 11.1 per cent in 2001-02, the share of unregistered manufacturing showed a very small increase from 4.5 per cent in 1950-51 to 5.8 per cent in 2001-02. Similarly, the share of construction has marginally improved from 4.1 per cent in 1950-51 to 5.1 per cent in 2001-02.

3 The tertiary sector (service sector) includes trade, transport, storage, communications, banking insurance, real estate and community and personal services. The share of the tertiary or service sector has improved from 28.0 per cent in 1950-51 to 49.5 per cent in 2001-02. Within this sector, the share of transport, trade and communications shot up from about 12 per cent in 1950-51 to 13.5 per cent in 2001-02. Besides this, the process of economic growth involves a rapid expansion of economic and welfare services such as education, health and family welfare. Consequently, community and personal services as a group improved their share from 9.4 per cent in 1950-51 to 13.2 per cent in 1999-2000. Similarly, the share of finance and real estate which includes banking and insurance improved from 6.7 per cent in 1950-51 to 12.5 per cent in 2001-02.

The theory of economic growth also supports the structural change in the composition of gross domestic product (GDP). The distribution of GDP in developed countries shows a much higher share of industry and services and a relatively much lower share of agriculture. The disparity in per capita incomes between developed and underdeveloped countries is largely a reflection of the disparity in the structure of their economies. While the developed countries are predominantly industrial in their structure, developing countries like India are still predominantly agricultural. However, the fast pace of industrial development has led to an improvement in the share of the secondary sector, more especially that of industry (manufacturing). The service sector has also started growing. Its share touched 49.5 per cent in 2001-02. As education, health, banking, insurances and communications expand the share of the service sector is bound to increase.

13.5.2 Urban-Rural Income Break-up

The process of economic development is accompanied by the transfer of population from rural to urban areas. This brings about a change in the distribution of net domestic product in favour of urban areas since the per capita NDP in urban areas is higher than that of the rural areas. Data provided in Table 13.3 reveals that the share of rural sector in NDP in 1970-71 was 62.4 per cent. It declined to 54.3 per cent in 1993-94. As against this, the share of urban sector in NDP improved from 37.6 per cent in 1970-71 to 45.7 per cent in 1993-94. The per capita NDP for rural sector was Rs. 529 in 1970-71 and that of urban sector was 1,294. The urban rural disparity ratio was 2.45. However, this ratio marginally declined to 2.34 in 1993-94 since per capita NDP for the urban sector was Rs. 13,525 as against Rs. 5,783 for the rural sector. Sector-wise data for the latter period is, however, notavailable.

Table 13.3 : Rural-Urban Income Break-up (NDP)

(Rs. in crore at current prices)

	1970-71			1993-94		
	Rural	Urban	Total	Rural	Urban	Total
Net Domestic Product	22,937	13,850	36,787	378,791	319,201	697,992
	(62.4)	(37.6)	(100.0)	(54.3)	(45.7)	(100.0)
Population (Crore)	43.4	10.7	54.1	65.5	23.6	89.1
Per Capita NDP (Rs.)	529	1,294	680	5,783	13,525	7,834

Source: CSO, *National Accounts Statistics*

13.5.3 Share of Organised and Unorganised Sectors in NDP

Organised sector as defined by the CSO includes all enterprises which are registered or come under the purview of any of the Acts and/or maintain annual accounts and balance sheets. Among the unorganised sector are included all unincorporated enterprises and household industries other than the organised ones which are regulated by any of the Acts but do not maintain annual accounts and balance sheets.

Table 13.4 : Percentage Share in Net Domestic Product by Organised and Unorgansied Sectors

	1980-81		2000-01	
	Organised	Unorganised	Organsied	Unorganised
1 Agricculture, forestry and fishing	4.8	95.2	3.5	96.5
2 Mining, Manufacturing, etc.	56.8	43.2	64.2	35.8
3 Services	39.9	60.1	47.1	52.9
Total	**30.0**	**70.0**	**36.8**	**63.2**

Source: CSO, *National Accounts Statistics*

Data given in Table 13.4 reveals that share of the organised sector has risen from 30 per cent in 1980-81 to 36.8 per cent in 2000-01, and the share of the unorganised sector has declined from 70 per cent in 1980-81 to about 63.2 per cent in 2000-01. The share of the organised sector in manufacturing, mining, etc. (secondary sector) has improved from 56.8 per cent in 1980-81 to 64.2 per cent in 2000-01. and that of the service sector from about 40 per cent in 1980-81 to about 47 per cent in 2000-01. It is only in agriculture, forestry and fishing (primary sector) that the share of the organised sector has slightly decreased from 4.8 per cent to 3.5 per cent during the 20-year period. The shift in the composition of NDP from the unorganised to the organised sector is a direct consequence of the process of development.

Check your Progress B

1 Why is economic development considered more comprehensive measure of progress of an economy ?

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2 Name the major sectors of the economy whose share in national income declined during the last 50 years of development. Which sector has shown the highest rise in its share?

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3 Fill in the blanks.

(a) The average annual growth rate of national income during 1980-81 to 2000-01 at 1993-94 prices was __________ per annum and that of per capita was merely __________ per annum

(b) The rise in per capital NNP was only __________ in a span of 30 years during 1950-51 to 1980-81 at 1993-94 prices

(c) The share of agriculture etc. (primary sector) in GDP has considerably __________ during 20 years period from 1980-81 to 2001-02.

(d) The share of manufacturing in GDP has increased from 14.8% to __________ during 1980-81 to 2001-02.

(e) The urban rural disparity ratio of NDP was 2.45 in 1970-71 which marginally __________ in 1993-94.

(f) The shift in the composition of NDP from unorganised to organised sector is a direct consequence of the process of __________.

13.6 TRENDS IN SAVINGS AND INVESTMENT

Of all the factors that determine the rate of growth in a country, the rate of capital formation is considered to be the most important factor. This involves saving and investment which not only raises the productive capacity but creates a sound base for further development. The estimates of saving and investment in the post-independence period have been prepared by two organisations, *viz.*, the Reserve Bank of India (RBI) and the Central Statistical Organisation (CSO) from time to time. While preparing an estimate it is customary to divide the economy into three sectors. These are :

1 Household sector which comprises individual and economic units run on an individual, partnership or non-corporate basis ;

2 Corporate sector which includes the joint stock companies; and

3 The Government sector which includes the administrative departments and the enterprises run under state control.

If we sum up the net change in the value of assets in a given period in these sectors, we arrive at the amount of net domestic capital formation. To this, if we add the net inflow of foreign capital, we arrive at an estimate of net national capital formation for the economy.

13.6.1 Trends in Gross Domestic Savings

Table 13.5 provides data on the trend in gross domestic saving in the Indian economy during 1950-51 to 2001-02 at market prices. A close perusal of this data reveals that the rate of gross domestic savings of the Indian economy has risen considerably though not as much as expected. As a percentage of GDP at market prices, the gross domestic savings improved from 8.9 per cent in 1950-51 to 14.6 per cent in 1970-71 and subsequently reached a level of 23.1 per cent in 1990-91. By 1995-96, the gross domestic savings touched its peak of 25.1 per cent and, thereafter, it has fluctuated between 23 to 24 per cent with this exception of 1998-99 when it came down to 21.5 per cent.

Table 13.5 : Composition of Gross Domestic Savings

	As Percentage of GDP at market prices			
	Household sector	Private corporate sector	Public sector	Total
1950-51	6.2	0.9	1.8	8.9
	(69.7)	(10.1)	(20.2)	(100.0)
1960-61	7.3	1.6	2.6	11.6
1970-71	10.1	1.5	2.9	14.6
1980-81	13.8	1.6	3.4	18.9
1990-91	19.3	2.7	1.1	23.1
	(83.5)	(11.7)	(4.8)	(100.0)
1995-96	18.2	4.9	2.0	25.1
1996-97	17.0	4.5	1.7	23.2
1997-98	17.6	4.2	1.3	23.1
1998-99	18.8	3.7	-1.0	21.5
1999-00	20.8	4.4	-1.0	24.1
2000-01	21.6	4.1	-2.3	23.4
2001-02	22.5	4.0	-2.5	24.0
	(93.7)	(16.7)	(-10.4)	(100.0)

Note: Ratios of savings of individual sectors may not add to total because of rounding off.
Source: CSO, National Accounts Statistics

It would be of interest to study the share of different sectors in gross domestic savings during the last 50 years. The household sector has been the major contributor to gross domestic savings. Its contribution was 6.9 per cent in 1950-51. It markedly improved to 19.3 per cent in 1990-91 and peaked to a level of 22.5 per cent in 2001-02. In relative terms, its share was about 70 per cent of total GDS in 1950-51 which improved to about 84 per cent in 1990-91 and was of the order of about 94 per cent in 2001-02.

The private corporate sector contributed 0.9 per cent of GDS in 1950-51, and its share improved to 2.7 per cent in 1990-91 and to 4 per cent in 2001-02. In relative terms, its share in total GDS improved from 10 per cent in 1950-51 to about 12 per cent in 1990-91 and further to about 17 per cent in 2001-02. The share of public sector savings which was 1.8 per cent of GDP in 1950-51 increased to 3.4 per cent in 1980-81. Thereafter it declined to 1.1 per cent in 1990-91 and deteriorated further to (–) 2.5 per cent in 2001-02. The negative contribution of the public sector to savings since 1998-99 has been a cause for serious concern. The public sector savings have two components—the savings of the government departments and the savings of the public enterprises. The deterioration in public sector savings is mainly due to the dissavings of the government departments. The relative contribution of the public sector savings was 20.2 per cent in 1950-51, which declined to 4.8 per cent in 1990-91 and became negative to the extent of 10.4 per cent in 2001-02.

13.6.2 Trends in Gross Domestic Capital Formation

Gross Domestic Capital Formation (GDCF) is an indicator of the total investment in an economy. GDCF is composed of two components : (i) gross domestic savings (GDS), and (ii) net capital inflow (CI).

GDCF = GDS + CI

Table 13.6 provides information about the trends in gross domestic capital formation over the last five decades. You will notice that the GDCF was 8.7 per cent of GDP in 1950-51. It improved to 26.3 per cent in 1990-91 and reached its peak in 1995-96 to 26.9 per cent. However, it showed a downward trend thereafter and came down to 23.1 per cent to 2001-02.

As for its components, the share of gross domestic savings has shown a continuous increase but the share of net capital inflow which was of the order of (–) 0.2 per cent in 1950-51 turned positive and reached its peak to 3.2 per cent in 1990-91. Thereafter, the contribution of net capital inflow declined to 0.6 per cent in 2000-01 and became negative (–0.3 per cent) in 2001-02.

Table 13.6 : Gross Domestic Savings and Gross Domestic Capial Formation

(Rs. crores at current prices)

	Gross Domestic Savings (1)	Net Capital Inflow (2)	Gross Domestic Capital Formation (3 = 1 + 2)
1950-51	887	-21	866
	(8.9)	(0.2)	(8.7)
1960-61	1,989	481	2,470
	(11.6)	(2.8)	(14.4)
1970-71	6,649	394	7,043
	(14.6)	(0.8)	(15.4)
1980-81	27,136	2,094	29,230
	(18.9)	(1.4)	(20.3)
1990-91	1,31,340	16,196	1,49,536
	(23.1)	(3.2)	(26.3)
1995-96	2,98,747	20,780	3,19,527
	(25.1)	(1.8)	(26.9)
1999-2000	4,66,640	21,988	4,88,628
	(24.1)	(1.1)	(25.2)
2000-01	4,95,986	12,842	5,08,883
	(24.0)	(0.6)	(24.6)
2001-02	5,35,185	-7,286	5,27,917
	(23.4)	(–0.3)	(23.1)

Note: Figures in brackets are percentages of GDP at market prices.
Source: Central Statistics Organisation and *Economic Survey (2002-03).*

13.6.3 Share of Public and Private Sectors

Public sector was used as the engine of growth during the first four decades of development. As a result, investment in public sector was stepped up. The main purpose of public sector investment was to create an industrial base and provide the necessary infrastructure so that private sector investment was facilitated.

Share of public sector investment improved from 2.8 per cent in GDP in 1950-51 to 9.4 per cent in 1990-91. Similarly, the share of private sector investment improved from 7.7 per cent in 1950-51 to 14.7 per cent in 1990-91. Thereafter, the wave of liberalisation and privatisation, popularly termed as economic reform, restricted the role of the public sector. Consequently, the share of public sector in GDCF continued to decline and reached a level of 5.8 per cent in 2001-02. Correspondingly, the share of the private sector rose further and ranged between 16 and 17 per cent during 1990-91 and 2001-02. (See Table 13.7)

Table 13.7 : Gross Domestic Capital Formation and Adjusted GDCF

(As per cent of GDP at market prices)

	Public Sector (1)	Private Sector (2)	Total (3) = (1) + (2)	Errors and Omissions (4)	Adjusted GDCF (5) = (3) + (4)
1950-51	2.8	7.7	10.5	-1.8	8.7
1960-61	6.9	7.8	14.7	-0.3	14.4
1970-71	6.4	9.4	15.8	-0.4	15.4
1980-81	8.4	10.3	18.7	1.6	20.3
1990-91	9.4	14.7	24.1	2.2	26.3
1995-96	7.7	18.8	26.5	0.4	26.9
1996-97	7.0	14.9	21.8	2.7	24.5
1997-98	6.6	16.0	22.6	2.0	24.6
1998-99	6.6	14.8	21.4	1.2	22.6
1999-2000	6.9	16.7	23.6	1.6	25.2
2000-01	6.4	16.3	22.7	1.7	24.3
2001-02	5.8	16.5	22.3	0.8	23.1

Source: Central Statistics Organisation and *Economic Survey (2002-03)*.

There is no recognised method of allocating errors and omissions, and as such they have been separately shown in order to arrive at adjusted GDCF which is used for all official purposes and decision-making.

13.6.4 Gross Capital Formation by Industry of Use

To understand gross capital formation by industry of use, the economy is broadly classified into commodity sector and service sector. The commodity sector includes (a) agriculture, forestry and fishing, (b) mining and manufacturing, (c) electricity, gas and water supply, and (d) construction. The service sector includes: (a) trade, hotels and restaurants, (b) transport, storage and communications, (c) finance, insurance, real estate and business services and (d) community, social and personal services.

Table 13. 8 : Gross Capital Formation by Industry of Use at 1993-94 Prices

(Rs. in crores)

		1950-51	2000-01
1	Agriculture, forestry & fishing	3,798 (19.3)	19,451 (7.1)
2	Mining & Quarring	178 (0.9)	3,626 (1.3)
3	Manufacturing	3,790 (19.2)	106,446 (38.7)
4	Electricity, gas & water	439 (2.2)	25,713 (9.4)
5	Construction	123 (0.6)	3,088 (1.1)
A	**Commodity Sector (1 to 5)**	**8,328 (42.2)**	**158,324 (57.6)**
6	Trade, hotels & restaurants	2,432 (12.4)	12,802 (4.7)
7	Transport, storage & communications	2,502 (12.7)	35,180 (12.8)
8	Finance, insurance, real estate & business services	4,202 (21.3)	33,763 (12.2)
9	Community social & personal services	2,230 (11.3)	34,848 (12.7)
B	**Service Sector (6 to 9)**	**11,366 (57.8)**	**116,593 (42.4)**
	Total	**1,96,94 (100.0)**	**274,917 (100.0)**

Note: Figures in brackets are percentage of total GCF.

Source: Compiled and computed from EPW Research Foundation (2002), National Accounts Statistics of India (1950-51 to 2000-01).

In 1950-51, the share of the commodity sector was 42 per cent and that of the service sector was about 58 per cent in capital formation. But as economic development with emphasis on industrialisation gathered momentum in the post-independence period, the share of the commodity sector in GCF showed considerable improvement. By 2000-01, it accounted for about 58 per cent as against the service sector which accounted for about 42 per cent of GCF. Four sectors are very important from the point of view of gross capital formation—manufacturing (38.7%); transport, storage and communications (12.8%), community and personal services (12.7%); and finance, insurance and real estate (12.2%). These four sectors account for 76.4 per cent of the total GCF, more than three-fourth of the total capital formation in the Indian economy.

Check Your Progress C

1 What are the three sectors into which economy is divided for preparing the estimates of gross domestic savings. Which of the three sectors has shown a promising performance and disappointing performance?

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2 Why has the composition of savings changed in favour of financial savings during the last three decades?

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3 Name the four sectors of Indian economy which account for over three-fourth of the Gross Domestic Capital Formation.

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13.7 ROLE OF THE PUBLIC SECTOR

When India achieved independence, it had practically no capital goods sector, and infrastructure facilities in the form of irrigation, electric energy, transport and communications were highly limited.. The private sector, at that time, was not willing to enter into such areas as they required huge investment and had a long gestation period. Hence, the Industrial Policy Resolution of 1956 assigned a major role to the public sector in these areas as is clear from the objectives laid down for setting up public sector enterprises:

1 To promote rapid economic development through the creation and expansion of infrastructure;

2 To promote the development of heavy and basic industries to provide an industrial base to the economy;

3 To create employment opportunities;

4 To promote redistribution of income and wealth;

5 To promote balanced regional development;

6 To promote exports on one side and import substitution on the other; and

7 To encourage the development of small and ancillary industries.

Public sector enterprises in India constitute a major national capability in terms of their scale of operation, coverage of the economy, technology used, and stock of human capital. There are over a thousand public enterprises, of which about 800 are owned by the states. In1950-51 there were only 5 industrial and commercial undertakings of the Central Government with an investment of Rs. 29 crore. As on March 31, 2003, this number has gone upto 24 having a total investment of Rs. 3,33,475. The bulk of this investment (about 53%) was in basic industries like steel, coal, power petroleum, fertilisers, etc. and nearly 36% of investment in service sector. It may be noted that this excludes the investment in departmental undertakings like railways, posts and telegraph, etc. Besides, the state level public enterprises accounted for investment of Rs. 1,62,000 crore.Let us now look at the role played by the public secotr in developing the Indian economy and meeting its objectives.

Building up strong industrial base : There is no denying the fact that rapid industrialisation that took place during the first three decades after independence was mainly due to the public sector. The Industrial Policy Resolution (1956) had reserved certain industries, viz., atomic energy, arms and ammunition, aircraft, etc. for the government in the interest of national security. The state also took responsibility for the development of key industries such as coal, iron and steel, aircraft, ship building, etc. The Planning Commission had thought it imperative to undertake a much more diversified development if the Indian economy was to become self-generating, and there was no alternative but to seek government intervention to undertake the development of basic and strategic industries, capital goods industries, and even some consumer goods industries. Fortunately, a strong industrial base has been laid by the public sector, though there are still several shortcomings and weaknesses which need remedial action. Somehow, even after economic reforms initiated in 1991, private sector investment has not been forthcoming in infrastructure and heavy industries. Hence, a consensus has developed that public sector should continue to take responsibility for infrastructure expansion.

There is a wide spectrum of industries in critical areas in which public sector is dominant. These are: steel, coal, copper, zinc, heavy machinery, petroleum products, electricity generation, etc. in which the share of public sector investment ranges between 50 to 95 per cent. In these critical areas, some forays have been made by the private sector, but the dominance of the public sector continues .

Export promotion : Some public sector enterprises have achieved commendable success in promoting India's exports. The State Trading Corporation (STC) and Minerals & Metals Trading Corporation (MMTC) were able to promote exports in all parts of world. Hindustan Steel Ltd., Bharat Electronics Ltd., Hindustan Machine Tools, etc. are some of the enterprises which are export-oriented. The foreign exchange earnings of the public sector rose to Rs. 5,830 crore in 1984-85, and zoomed forward to Rs. 20,890 crore in 2001-02. The role of the public sector in promoting exports is really creditable.

Import substitution : Some public sector enterprises were started with the specific objective of producing goods which were imported. Mention may be made of Hindustan Antibiotics Ltd. and the Indian Drugs and Pharmaceuticals Ltd. (IDPL) which were promoted to save foreign exchange and break the stranglehold of foreign companies in India. Like-wise, Indian Oil Corporation (IOL) and Oil and National Gas Commission (ONGC) were created to attain self-reliance and reduce our dependence on imports. Bharat Electronics Ltd. had also saved foreign exchange by encouraging import substitution. It can, therefore, be asserted that public sector enterprises helped in saving foreign exchange and promoting import substitution in critical areas.

Enlarging employment : The functions of the state in the post-independence period have been enlarged to include developmental administration and operation of public enterprises. There are two important categories of public sector employment: (a) government administration, defence, and other community services like health, education, and research, etc., and (b) public sector proper, i.e., economic enterprises owned by the centre, state and local governments.

With the expansion of the role of State, public sector employment has been continuously growing. It was 111 lakh in 1971 and reached a figure of 191 lakh in 2001. But, the employment in the organised private sector did not grow in the same proportion. As a result the share of public sector in total organised sector employment improved from 62 per cent in 1971 to about 71 per cent in 1991. However, thereafter, public sector employment grew at a slower pace as compared with private sector employment, and so it was reduced to 69 per cent of the total in 2001-02 (See Table 13.9).

Table 13.9 : Public and Private Sector Employment in India

(Rs. in lakh)

	Public Sector (1)	Private Sector (2)	Total (3)	1 as % of 3
1971	111	67	178	62
1981	155	74	229	68
1991	190	77	267	71
2001	191	87	278	69

Source: Compled from RBI, *Handbok of Statistics on Indian Economy (2001)* and *Economic Survey (2002-03)*.

From Table 13.10, it may be observed that 51 per cent of the total employment in the public sector was in government administration, community and personal services and the balance of 49 per cent was spread in other economic enterprises run by the centre, state and local governments. The biggest chunk of employment in economic enterprises was in transport, storage and communications of the order of 30 lakh and next in importance was manufacturing (14 lakh). About 5 lakh persons employed in agriculture and other economic activities reflect employment under Employment Guarantee Schemes.

Table 13.10 : Employment in Public Sector in 2001

		Lakh	*Per cent*
1	Manufacturing	14.3	7.5
2	Transport, storage and communications	30.4	20.1
3	Finance, insurance, real estate and business services	12.8	6.7
4	Government administration, community, social and personal services	98.3	51.4
5	Other Services	35.6	18.6
	Total	**191.4**	**100.0**

Source: Compiled and computed from Government of India, *Economic Survey (2002-03)*.

Raising internal resources : Public sector units generate internal resources to finance their plans of expansion. Internal resources consist of depreciation and retained profits. Besides, they are also expected to generate surplus to finance the needs of other priority sectors. In every subsequent plan, public sector generated a larger quantum of internal resources. During the Sixth Plan (1980-81 to 1984-85), internal resources amounting to Rs. 14,710 crore were generated, implying an annual average of Rs. 2,940 crore. During the Seventh Plan, internal resources of the order of Rs. 29,750 crore were generated. During the Eighth Plan, PSUs generated internal resources of the order of Rs. 1,01,212 crore, implying an annual average of Rs. 20,292 crore a really creditable record. During 2001-02, internal resource generation was of the order of Rs. 52,545 crore. The role of public sector undertakings in internal resource generation has been quite encouraging.

Contribution to the Central Exchequer : Public sector enterprises are considered to be the honest tax-payers. They pay to the Government exchequer by way of corporate taxes, excise duty, custom duty, and other duties. They contributed Rs. 27,570 crore during the Sixth Plan. Their contribution sharply rose to Rs. 1,33,780 crore during the Eighth Plan, and to Rs. 2,69,110 crore during the Ninth Plan. Thus, their average annual contribution rose from Rs. 5,510 crore during the Sixth Plan to Rs. 53,822 crore during the Ninth Plan.

The upshot of the entire analysis is that the public sector provided an industrial base to the economy, created and strengthened economic and social infrastructure, promoted exports, and encouraged import substitution. It contributed about 69 per cent of the total organised sector employment. It was effective in internal resource generation and made substantial contribution to state exchequer by way of taxes and duties. However, the new industrial policy emphasized four important measures for reducing the role of public sector, viz., (a) reduction in number of industries reserved for the public sector, (b) disinvestment of shares of a select set of public sector enterprises, (c) the policy towards sick public sector undertakings to be the same as that for the private sector, and (d) improvement of performance through an MOU system by which managements are granted greater autonomy and held accountable for specified results. In addition, there is a drastic reduction in budgetary support to sick or potentially sick public sector undertakings.

13.8 JOINT SECTOR

Dutt Committee (1969) recommended the concept of the joint sector. In simple terms, the joint sector is a form of partnership between the private sector and the government. Joint ownership companies with a majority stake by the Government are classified as

Joint Sector (Public) and those with a majority stake by the private sector are classified as Joint Sector (Private).

The Annual Survey of Industries (1997-98) provides data in terms of ownership. Table 13.11 provides information on productive capital, value added and employment for the three sectors, *viz.*, public sector, private sector and joint sector in the corporate sector of the Indian economy. You will notice that out of the total productive capital invested in the corporate sector amounting to Rs. 5,86,530 crore, the joint sector accounted for Rs. 71,637 crore, i.e., 12.2 per cent, The share of the joint sector in value added was 12.1 per cent, and its share in total corporate employment was just 6.7 per cent. Thus, the joint sector is just at an infant stage. The major partness in corporate sector continue to be the public sector and private sector. The public sector accounts for 32 per cent of productive capital, 28.4 per cent of value added and 24 per cent of total employment. As against this, the private sector accounts for 55.6 per cent of productive capital, 59.3 per cent of value added and about 69 per cent of employment. Taking the public and private sectors together, they account for about 88 per cent of productive capital as well as the value added, and 93 per cent of the total employment in the corporate sector.

Table 13.11 : Structure of Industries in Terms of Ownership and Employment (Corporate Sector) 1997-98

		Productive capital (Rs. crore)	Value added (Rs. crore)	Employment ('000) employees
I	Public Sector	1,88,032	44,357	2,388
		(32.0)	(28.4)	(24.1)
II	Joint Sector (a + b)	71,637	18,819	668
		(12.2)	(12.1)	(6.7)
	(a) Joint Sector (Public)	52,189	13352	428
		(8.9)	(8.6)	(4.3)
	(b) Joint Sector (Private)	19,448	5,467	240
		(3.3)	(3.5)	(2.4)
III	Private Sector	3,25,889	92,503	6,838
		(55:6)	(59.3)	(68.9)
IV	Unspecified	972	267	31
		(0.2)	(0.2)	(0.3)
	Total	**5,86,530**	**1,55,946**	**9,925**
		(100.0)	**(100.0)**	**(100.0)**

Source: CSO, *Annual Survey of Industries (1997-98)*.

With the policies of liberalisation, privatisation and globalisation unleashed after 1991, there is a clear shift in favour of the private sector. It is quite likely that the joint sector may not grow as the government is no more thinking of promoting it as a compromise solution.

Check Your Progress D

1 Why was public sector development given importance in the post-independence period?

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2 Do you think public sector has still a role of play in the era of economic reforms?

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3 Explain the concept of joint sector?

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13.9 LET US SUM UP

Indian economy has been charaterised as an underdeveloped economy as almost all the characteristic features of an underdeveloped economy are still present in it. The per capita income in India, barring a few countries, is lowest in the world, the unemployment is chronic and the rate of capital formation is discouraging. There are sharp inequalities in wealth distribtuion, human development index is too low, and most manufacturing untis are outdated inferior technology.

After independence, isntead of following the capitalistic system or the socialistic model, India adopted mixed economy framework which accepts the co-existence of public and private sectors with a greater role for the state to direct the economic activity and an emphasis on helping weaker sections of economy.

The terms `economic growth' and `economic development' are often used interchangeably but in fact these have different connotations. While economic growth refers to increase in the real output, economic development implies not only a sustained increase in output but also the technical and institutional changes by which it is produced and distributed. Thus, economic development entails progressive changes in the socio-economic structure of a country along with increase in real output per capita over a period of time.

During the 30 year period (1950-51 to 1980-81), the growth of national income (NNP) at 1993-94 prices was 3.4% per annum and that of per capita merely 1.2% per annum. This, however, improved considerably during the last two decades. As for the composition of gross domestic product, significant changes are observed during the 50 year period. While the share of primary sector (agriculture, fisheries etc.) has gone down substantially, the share of secondeary sector (manufacturing, constructions, etc.) shows a steady increase. The share of tertiary sector (services) has also shown improvement. The per capita income in urban areas is higher (almost double) than that of the rual area. Similarly, the share of unorganised sector has also gone up which is a direct consequnece of the process of development.

The rate of gross domestic savings has risen considerably during the last five decades to which the household sector has been the major contributor. Somehow, in this respect, the public sector has been a far serious concern as, of late, its contribution has been negative (-2.5% of GDP). As for the investment, the Gross Domestic Capital Formation (GDCF) which was 8.7% of GDP in 1950-51 had increased to 23.1% in 2001-02. When we look at the gross doemstic capital formation by industry of use, we find that with emphasis on industrialisation, the share of commodity sector improved from 42.2% in 1950-51 to 57.6% in 2000-01, with manufacturing as the biggest gainer.

The Industrial Policy Resolution 1956 had assigned a major role to public sector with a veiw to ensure development of basic and capital goods industries, expansaion of infrastructure facilities, creaton of employment opportunities, promotion of exports, income and wealth, and balanced regional development. As a result, there are over a thousand public enterprises in the country, of which 800 are owned by the states, involving huge investment. This has helped in providing a strong industrial base, created the necessary economic and social infrastructure, and promoted exports and import substitution. It has contributed to a considerable increase in employment and internal resoruces generation with substantial contribution to state exchequer. However, the new economic policy of liberalisation has emphasised on limiting their role by reduction in the number of indsutries reserved for the public sector to the minimum, disinvestment of shares of a select set of public sector enterprises and a drastic reduction in budgeting support to sick enterprises.

Dutt Committee (1969) had recommended the concept of joint sector, a form of partnership between the private sector and the government. But, somehow, it did not click. It accounted for just 12.2% of productive captial, 12.1% of the value added and 6.7% of corporporate employment. In fact, with the policies of liberalisation privatisation and globalisation unleashed after 1991, there is a clear shift in favour of the private sector.

13.10 KEY WORDS

Democratic Socialism : Economic growth with social justice within the framework of a democratic society, ensuring minmum level for all alongwith a programme of action reucing economic and social ineuqalities.

Disguised Unemployment : A situation where number of workers on a job is larger than required.

Economic Development : Increases in output of goods and services and also the changes in the technical and institutional arrangements by which it is produced and distributed.

Economic Growth : Increases over time of the output of goods and services.

Financial Savings : Savings in the form of currency, bank deposits, shares and debentures, insurance, provident and pension funds, etc.

Gross Domestic Capital Formation : The sum total of gross domestic saving plus capital inflow from abroad.

Human Development Index : Measure of human resource development effortsbased on life expectancy, adult education and combined enrolment ratio, and real per capita GDP.

Organised Sector : It refers to all enterprises which are registered or covered under the purview of any of the Acts and/or maintain annual accounts and balance sheets.

Physical Savings: Savings in the form house property and equipment in the possession of households.

Social Infrastructure : Infrastructure in the form of eduacation and health related facilties.

Unorganised Sector : It refers to all unincorporated enterprises and household enterprises other than the organised ones that are regulated by any of the Acts but do not maintain annual accounts and balance sheets.

13.11 ANSWERS TO CHECK YOUR PROGRESS

A 1 (a) False (b) True (c) False (d) True (e) True (f) False

B 3 (a) 5.5%; 3.3% (b) 45% (c) come down (d) 17.8% (e) Came down (f) development

13.12 TERMINAL QUESTIONS

1 Why is Indian economy regarded an underdeveloped economy? State its basic characteristics.

2 What are the two models of development that prevailed in the world on the eve of India's independence ? Discuss the principal features of the mixed economy framework that developed in India during the first four decades of development.

3 Comment on the following statement
 (a) The trend of growth in net national product during the first three decades of planning was very slow, it picked up during the last two decades.
 (b) The process of economic development is accompanies by the transfer of population from rural to urban areas. This brings about a change in the distribution of net domestic product in favour of urban areas.

4 Distinguish between
 (a) Economic Growth and Economic Development
 (b) Financial Savings sand Physical Savings

5 Explain the concept of 'gross domestic saving' and gross domestic investment'. Indicate the trend of gross domestic capital formation in the Indian economy and analyse it industrywise.

6 What were the objectives laid down in Industrial Policy Resolution of 1956 public sector ? How far had they been achieved ?

> **Note :** These questions will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the university for assessment. These are for your practice only.