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Indian Economy

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CHAPTER 1

Economic Development in India

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualised rate in the three decades after Independence. Since the mid-1980s, India has slowly opened up its markets through economic liberalisation. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy.

In the late 2000s, India's growth reached 7.5%, which will double the average income in a decade. Analysts say that if India pushed more fundamental market reforms, it could sustain the rate and even reach the government's 2011 target of 10%. States have large responsibilities over their economies. The annualised 1999–2008 growth rates for Tamil Nadu (9.8), Gujarat (9.6%), Haryana(9.1%), or Delhi (8.9%) were significantly higher than for Bihar (5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (6.5%). India is thetenth-largest economy in the world and the third largest by purchasing power parity adjusted exchange rates (PPP). On per capita basis, it ranks 140th in the world or 129th by PPP.

The economic growth has been driven by the expansion of services that have been growing consistently faster than other sectors. It is argued that the pattern of Indian development has been a specific one and that the country may be able to skip the intermediateindustrialisation-led phase in the transformation of its economic structure. Serious concerns have been raised about the jobless nature of the economic growth.

Favourable macroeconomic performance has been a necessary but not sufficient condition for the significant reduction of poverty amongst the Indian population. The rate of poverty decline has not been higher in the post-reform period (since 1991). The improvements in some other non-economic dimensions of social development have been even less favourable. The most pronounced example is an exceptionally high and persistent level of child malnutrition (46% in 2005–6).

The progress of economic reforms in India is followed closely. The World Bank suggests that the most important priorities are public sector reform, infrastructure, agricultural and rural

development, removal of labour regulations, reforms in lagging states, and HIV/AIDS. For 2012, India ranked 132nd in Ease of Doing Business Index, which is setback as compared with China 91st and Brazil 126th. According to Index of Economic Freedom World Ranking an annual survey on economic freedom of the nations, India ranks 123rd as compared with China and Russia which ranks 138th and 144th respectively in 2012.

Agriculture

Composition of India's total production (million tonnes) of foodgrains and commercial crops, in 2003–04.

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 18.6% of the GDP in 2005, employed 60% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the green revolution.

India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population (193 million). It is the second largest producer of wheat, rice, sugar, groundnut and inland fish. It is the third largest producer of tobacco. India accounts for 10% of the world fruit production with first rank in the production of banana and sapota.

The required level of investment for the development of marketing, storage and cold storage infrastructure is estimated to be huge. The government has implemented various schemes to raise investment in marketing infrastructure. Amongst these schemes are Construction of Rural Go downs, Market Research and Information Network, and Development / Strengthening of Agricultural Marketing Infrastructure, Grading and Standardisation.

Main problems in the agricultural sector, as listed by the World Bank, are:

1) India's large agricultural subsidies are hampering productivity-enhancing investment.

2) Overregulation of agriculture has increased costs, price risks and uncertainty.

3) Government interventions in labour, land, and credit markets.

4) Inadequate infrastructure and services.

Research and development

The Indian Agricultural Research Institute (IARI), established in 1905, was responsible for the research leading to the "Indian Green Revolution" of the 1970s. The Indian Council of Agricultural Research (ICAR) is the apex body in kundiure and related allied fields, including research and education. The Union Minister of Agriculture is the President of the ICAR. The Indian Agricultural Statistics Research Institute develops new techniques for the design of agricultural experiments, analyses data in agriculture, and specialises in statistical techniques for animal and plant breeding. Prof. M.S. Swaminathan is known as "Father of the Green Revolution" and heads the MS Swaminathan Research Foundation. He is known for his advocacy of environmentally sustainable agriculture and sustainable food security.

Industrial output

India is tenth in the world in factory output. Manufacturing sector in addition to mining, quarrying, electricity and gas together account for 27.6% of the GDP and employ 17% of the total workforce. Economic reforms introduced after 1991 brought foreign competition, led to privatisation of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods. In recent years, Indian cities have continued to liberalise, but excessive and burdensome business regulations remain a problem in some cities, like Kochi and Kolkata.

Post-liberalisation, the Indian private sector, which was usually run by oligopolies of old family firms and required political connections to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labour costs and technology. The Indian market offers endless possibilities for investors.

Services

India is fifteenth in services output. Service industry employ English-speaking Indian workers on the supply side and on the demand side, has increased demand from foreign consumers interested in India's service exports or those looking to outsource their operations. India's IT industry, despite contributing significantly to its balance of payments, accounts for only about 1% of the total GDP or 1/50th of the total services.

During the Internet bubble that led up to 2000, heavy investments in undersea fibre-optic cables linked Asia with the rest of the world. The fall that followed the economic boom resulted in the auction of cheap fiber optic cables at one-tenth of their original price. This development resulted in widely available low-cost communications infrastructure. All of these investments and events, not to mention a swell of available talent, resulted in India becoming almost overnight the centre for outsourcing of Business process. Within this sector and events, the ITES-BPO sector has become a big employment generator especially amongst young college graduates. The number of professionals employed by IT and ITES sectors is estimated at around 1.3 million as on March 2006. Also, Indian IT-ITES is estimated to have helped create an additional 3 million job opportunities through indirect and induced employment.

India's resource consumption

Oil

India had about 5.6 billion barrels (890,000,000 m3) of proven oil reserves as of January 2007, which is the second-largest amount in the Asia-Pacific region behind China. Most of India's crude oil reserves are located in the western coast (Mumbai High) and in the northeastern parts of the country, although considerable undeveloped reserves are also located in the offshore Bay of Bengal and in the state of Rajasthan.

The combination of rising oil consumption and fairly unwavering production levels leaves India highly dependent on imports to meet the consumption needs. In 2006, India produced an average of about 846,000 barrels (134,500 m3) per day (bbl/d) of total oil liquids, of which 77%, or 648,000 bbl/d (103,000 m3/d), was crude oil. During 2006, India consumed an estimated 2.63 Mbbl/d (418,000 m3/d) of oil. The Energy Information Administration (EIA) estimates that India registered oil demand growth of 100,000 bbl/d (16,000 m3/d) during 2006. EIA forecasts suggest that country is likely to experience similar gains during 2007 and 2008.

Sector organisation

India's oil sector is dominated by state-owned enterprises, although the government has taken steps in past recent years to deregulate the hydrocarbons industry and support greater foreign involvement. India's state-owned Oil and Natural Gas Corporation (ONGC) is the largest oil company, and also the country's largest company overall by market capitalisation. ONGC is the leading player in India's upstream sector, accounting for roughly 75% of the country's oil output during 2006, as per Indian government estimates.

As a net importer of oil, the Government of India has introduced policies aimed at growing domestic oil production and oil exploration activities. As part of the effort, the Ministry of Petroleum and Natural Gas crafted the New Exploration License Policy (NELP) in 2000, which permits foreign companies to hold 100% equity possession in oil and natural gas projects. However, to date, only a handful of oil fields are controlled by foreign firms. India's downstream sector is also dominated by state-owned entities, though private companies have enlarged their market share in past recent years.

Natural gas

As per the Oil and Gas Journal, India had 38 trillion cubic feet (1.1×1012 m3) of confirmed natural gas reserves as of January 2007. A huge mass of India's natural gas production comes from the western offshore regions, particularly the Mumbai High complex. The onshore fields in Assam, Andhra Pradesh, and Gujarat states are also major producers of natural gas. As per EIA data, India produced 996 billion cubic feet (2.82×1010 m3) of natural gas in 2004.

India imports small amounts of natural gas. In 2004, India consumed about 1,089×109 cu ft (3.08×1010 m3) of natural gas, the first year in which the country showed net natural gas imports. During 2004, India imported 93×109 cu ft (2.6×109 m3) of liquefied natural gas (LNG) from Qatar.

Sector Organisation

As in the oil sector, India's state-owned companies account for the bulk of natural gas production. ONGC and Oil India Ltd. (OIL) are the leading companies with respect to production volume, whilst some foreign companies take part in upstream developments in joint-

ventures and production sharing contracts (PSCs). Reliance Industries, a privately owned Indian company, will also have a bigger role in the natural gas sector as a result of a large natural gas find in 2002 in the Krishna Godavari basin.

The Gas Authority of India Ltd. (GAIL) holds an effective control on natural gas transmission and allocation activities. In December 2006, the Minister of Petroleum and Natural Gas issued a new policy that allows foreign investors, private domestic companies, and national oil companies to hold up to 100% equity stakes in pipeline projects. Whilst GAIL's domination in natural gas transmission and allocation is not ensured by statute, it will continue to be the leading player in the sector because of its existing natural gas infrastructure.

Issues

Regulation, public sector, corruption

India ranked 133rd on the Ease of Doing Business Index in 2010, compared with 85th for Pakistan, 89th for People's Republic of China, 125th for Nigeria, 129th for Brazil, and 122nd for Indonesia.

Extent of corruption in Indian states, as measured in a 2005 study by Transparency International India. (Darker regions are more corrupt)

Corruption in many forms has been one of the pervasive problems affecting India. For decades, the red tape, bureaucracy and the Licence Raj that had strangled private enterprise. The economic reforms of 1991 cut some of the worst regulations that had been used in corruption.

Corruption is still large. A 2005 study by Transparency International (TI) India found that more than half of those surveyed had firsthand experience of paying a bribe or peddling influence to get a job done in a public office. The chief economic consequences of corruption are the loss to the exchequer, an unhealthy climate for investment and an increase in the cost of government-subsidised services. The TI India study estimates the monetary value of petty corruption in 11 basic services provided by the government, like education, healthcare, judiciary, police, etc., to

be around 21068 crore (US$3.4 billion). India still ranks in the bottom quartile of developing nations in terms of the ease of doing business, and compared with China, the average time taken to secure the clearances for a startup or to invoke bankruptcy is much greater.

The Right to Information Act (2005) and equivalent acts in the states, that require government officials to furnish information requested by citizens or face punitive action, computerisation of services and various central and state government acts that established vigilance commissions have considerably reduced corruption or at least have opened up avenues to redress grievances. The 2006 report by Transparency International puts India at 70th place and states that significant improvements were made by India in reducing corruption.

Employment

India's labour force is growing by 2.5% every year, but employment is growing only at 2.3% a year. Official unemployment exceeds 9%. Regulation and other obstacles have discouraged the emergence of formal businesses and jobs. Almost 30% of workers are casual workers who work only when they are able to get jobs and remain unpaid for the rest of the time. Only 10% of the workforce is in regular employment. India's labour regulations are heavy even by developing country standards and analysts have urged the government to abolish them.

From the overall stock of an estimated 458 million workers, 394 million (86%) operate in the unorganised sector (of which 63% are self-employed) mostly as informal workers. There is a strong relationship between the quality of employment and social and poverty characteristics. The relative growth of informal employment was more rapid within the organised rather than the unorganised sector. This informalisation is also related to the flexibilisation of employment in the organised sector that is suggested by the increasing use of contract labour by employers in order to benefit from more flexible labour practices.

Children under 14 constitute 3.6% of the total labour force in the country. Of these children, 9 out of every 10 work in their own rural family settings. Around 85% of them are engaged in traditional agricultural activities. Less than 9% work in manufacturing, services and repairs. Child labour is a complex problem that is basically rooted in poverty. The Indian government is implementing the world's largest child labour elimination program, with primary education targeted for ~250 million. Numerous non-governmental and voluntary organisations are also

involved. Special investigation cells have been set up in states to enforce existing laws banning employment of children (under 14) in hazardous industries. The allocation of the Government of India for the eradication of child labour was US$10 million in 1995–96 and US$16 million in 1996–97. The allocation for 2007 is US$21 million.

Environmental degradation

About 1.2 billion people in developing nations lack clean, safe water because most household and industrial wastes are dumped directly into rivers and lakes without treatment. This contributes to the rapid increase in waterborne diseases in humans. Out of India's 3119 towns and cities, just 209 have partial treatment facilities, and only 8 have full wastewater treatment facilities (WHO 1992). 114 cities dump untreated sewage and partially cremated bodies directly into the Ganges River. Downstream, the untreated water is used for drinking, bathing, and washing. This situation is typical of many rivers in India as well as other developing countries. Globally, but especially in developing nations like India where people cook with fuelwood and coal over open fires, about 4 billion humans suffer continuous exposure to smoke. In India, particulate concentrations in houses are reported to range from 8,300 to 15,000 μg/m3, greatly exceeding the 75 μg/m3 maximum standard for indoor particulate matter in the United States. Changes in ecosystem biological diversity, evolution of parasites, and invasion by exotic species all frequently result in disease outbreaks such as cholera which emerged in 1992 in India. The frequency of AIDS/HIV is increasing. In 1996, about 46,000 Indians out of 2.8 million (1.6% of the population) tested were found to be infected with HIV.

CHAPTER 2

Economic History of India

he known Economic history of India begins with the Indus Valley civilization. The Indus civilization's economy appears to have depended significantly on trade, which was facilitated by advances in transport. Around 600 BC, the Mahajanapadas minted punch-marked silver coins. The period was marked by intensive trade activity and urban development. By 300 B.C., the Maurya Empire united most of the Indian subcontinent. The political unity and military security allowed for a common economic system and enhanced trade and commerce, with increased agricultural productivity.

For the next 1500 years, India produced its classical civilisations such as the Rashtrakutas, Hoysalas and Western Gangas. During this period India is estimated to have had the largest economy of the ancient and medieval world between the 1st and 17th centuries AD, controlling between one third and one fourth of the world's wealth up to the time of the Marathas, from whence it rapidly declined during European rule.

According to economic historian Angus Maddison in his book The World Economy: A Millennial Perspective, India was the richest country in the world and had the world's largest economy during 0 BCE and 1700 BCE.

India has followed central planning for most of its independent history, which have included extensive public ownership, regulation, red tape, and trade barriers. After the 1991 economic crisis, the central government launched economic liberalisation. India has turned towards a more capitalist system and has emerged as one of the fastest growing large economies of the world.

Indus Valley civilisation

Indus Valley civilisation, the first known permanent and predominantly urban settlement that flourished between 3500 BC to 1800 BC boasted of an advanced and thriving economic system. Its citizens practised agriculture, domesticated animals, made sharp tools and weapons from copper, bronze and tin and traded with other cities. Evidence of well laid streets, layouts, drainage system and water supply in the valley's major cities, Harappa, Lothal, Mohenjo-daro and Rakhigarhi reveals their knowledge of urban planning. One of the theories about their end is that they eventually overused their resources, and slowly died out. Another theory is that

invaders overran their civilisation. RV 6.27.5: At Hariyupiyah (Harappa) he (Indrah) smote the vanguard of the Vrcivans, and the rear fled frightened."

Ancient and medieval characteristics

Though ancient India had a significant urban population, much of India's population resided in villages, whose economy was largely isolated and self-sustaining. Agriculture was the predominant occupation of the populace and satisfied a village's food requirements besides providing raw materials for hand based industries like textile, food processing and crafts. Besides farmers, other classes of people were barbers, carpenters, doctors (Ayurvedic practitioners), goldsmiths, weavers etc.

Religion

Religion, especially Hinduism and Jainism, played an influential role in shaping economic activities. The Indian caste system castes and sub-castes functioned much like medieval European guilds, ensuring division of labour and provided for training of apprentices. The caste system restricted people from changing one's occupation and aspiring to an upper caste's lifestyle. Thus, a barber could not become a goldsmith and even a highly skilled carpenter could not aspire to the lifestyle or privileges enjoyed by a Kshatriya (person from a warrior class). This barrier to mobility on labour restricted economic prosperity to a few castes.

Pilgrimage towns like Allahabad, Benares, Nasik and Puri, mostly centred around rivers, developed into centres of trade and commerce. Religious functions, festivals and the practice of taking a pilgrimage resulted in a flourishing pilgrimage economy.

Economics in Jainism is influenced by Mahavira and his principles and philosophies. His philosophies have been used to explain the economics behind it. He was the last of the 24 Tirthankars, who spread Jainism. In the Economics context he explains the importance of the concept of 'anekanta'(non-absolutism).

Family business

In the joint family system, members of a family pooled their resources to maintain the family and invest in business ventures. The system ensured younger members were trained and employed in

the family business and the older and disabled persons would be supported by the family. The system, by preventing the agricultural land from being split ensured higher yield because of the benefits of scale. The system curbed members from taking initiative because of the support system and family or work.

Organizational entities

Along with the family-run business and individually owned business enterprises, ancient India possessed a number of other forms of engaging in business or collective activity, including the gana, pani, puga, vrata, sangha, nigama and sreni. Nigama, pani and sreni refer most often to economic organisations of merchants, craftspeople and artisans, and perhaps even para-military entities. In particular, the sreni was a complex organizational entity that shares many similarities with modern corporations, which were being used in India from around the 8th century BC until around the 10th century AD. The use of such entities in ancient India was widespread including virtually every kind of business, political and municipal activity.

The sreni was a separate legal entity which had the ability to hold property separately from its owners, construct its own rules for governing the behaviour of its members, and for it to contract, sue and be sued in its own name. Some ancient sources such as Laws of Manu VIII and Chanakya's Arthashastra have rules for lawsuits between two or more sreni and some sources make reference to a government official (Bhandagarika) who worked as an arbitrator for disputes amongst sreni from at least the 6th century BC onwards. There were between 18 to 150 sreni at various times in ancient India covering both trading and craft activities. This level of specialisation of occupations is indicative of a developed economy in which the sreni played a critical role. Some sreni could have over 1000 members as there were apparently no upper limits on the number of members.

The sreni had a considerable degree of centralised management. The headman of the sreni represented the interests of the sreni in the king's court and in many official business matters. The headman could also bind the sreni in contracts, set the conditions of work within the sreni, often received a higher salary, and was the administrative authority within the sreni. The headman was often selected via an election by the members of the sreni, who could also be

removed from power by the general assembly. The headman often ran the enterprise with two to five executive officers, who were also elected by the assembly.

Coinage

Punch marked silver ingots, in circulation around the 5th century BC and the first metallic coins were minted around 6th century BC by the Mahajanapadas of the Gangetic plains were the earliest traces of coinage in India. While India's many kingdoms and rulers issued coins, barter was still widely prevalent. [not in citation given] Villages paid a portion of their agricultural produce as revenue while its craftsmen received a stipend out of the crops at harvest time for their services. Each village, as an economic unit, was mostly self-sufficient.

GDP estimate

According to economic historian Angus Maddison in his book Contours of the world economy, 1–2030 AD: essays in macro-economic history, India had the world's largest economy during the years 1 AD and 1000 AD.

During the Maurya Empire (c. 321–185 BC), there were a number of important changes and developments to the Indian economy. It was the first time most of India was unified under one ruler. With an empire in place, the trade routes throughout India became more secure thereby reducing the risk associated with the transportation of goods. The empire spent considerable resources building roads and maintaining them throughout India. The improved infrastructure combined with increased security, greater uniformity in measurements, and increasing usage of coins as currency enhanced trade.

Mughal Empire

During the Mughal period (1526–1858) India experienced peaks and bottoms unprecedented in history. The gross domestic product of India in the 16th century was estimated at about 25.1% of the world economy.

An estimate of India's pre-colonial economy puts the annual revenue of Emperor Akbar's treasury in 1600 at £17.5 million (in contrast to the entire treasury of Great Britain two hundred

years later in 1800, which totalled £16 million). The gross domestic product of Mughal India in 1600 was estimated at about 24.3% the world economy, the second largest in the world.

By this time the Mughal Empire had expanded to include almost 90 per cent of South Asia, and enforced a uniform customs and tax-administration system. In 1700 the exchequer of the Emperor Aurangzeb reported an annual revenue of more than £100 million.

In the 18th century, Mughals were replaced by the Marathas in much of central India while the other small regional kingdoms who were mostly late Mughal tributaries such as the Nawabs in the north and the Nizams in the south. However, the efficient Mughal tax administration system was left largely intact.

By this time, India had fallen from the top rank to become the second-largest economy in the world. A devastating famine broke out in the eastern coast in early 1770s killing 5 per cent of the national population.

Economic historians in the 21st century have found that in the 18th century real wages were falling in India, and were "far below European levels."

British rule

After gaining the right to collect revenue in Bengal in 1765, the East India Company largely ceased importing gold and silver, which it had hitherto used to pay for goods shipped back to Britain. In addition, as under Mughal rule, land revenue collected in the Bengal Presidency helped finance the Company's wars in other part of India. Consequently, in the period 1760–1800, Bengal's money supply was greatly diminished; furthermore, the closing of some local mints and close supervision of the rest, the fixing of exchange rates, and the standardization of coinage, paradoxically, added to the economic downturn. During the period, 1780–1860, India changed from being an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More specifically, in the 1750s, mostly fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by the second quarter of the 19th century, raw materials, which chiefly consisted of raw cotton, opium, and indigo, accounted for most of India's exports. Also, from the late 18th century British cotton mill industry began to lobby the government to both tax Indian imports and allow

them access to markets in India. Starting in the 1830s, British textiles began to appear in—and soon to inundate—the Indian markets, with the value of the textile imports growing from £5.2 million 1850 to £18.4 million in 1896.

The British colonial rule created an institutional environment that did stabilise the law and order situation to a large extent. The British foreign policies however stifled the trade with rest of the world. They created a well-developed system of railways, telegraphs and a modern legal system. The infrastructure the British created was mainly geared towards the exploitation of resources in the world and totally stagnant, with industrial development stalled, agriculture unable to feed a rapidly accelerating population. They were subject to frequent famines, had one of the world's lowest life expectancies, suffered from pervasive malnutrition and were largely illiterate.

Declining Share of World GDP

British economist, Angus Maddison argues that India's share of the world income went from 27% in 1700 (compared to Europe's share of 23%) to 3% in 1950. Modern historians, Indian leaders during the Independence struggle and left-nationalist economic historians have blamed the colonial rule for the dismal state of India's economy, investment in Indian industries was limited since it was a colony.

The fall of the Rupee

After its victory in the Franco-Prussian War (1870–71), Germany extracted a huge indemnity from France of £200,000,000, and then moved to join Britain on a gold standard for currency. France, the US and other industrialising countries followed Germany in adopting a gold standard throughout the 1870s. At the same time, countries, such as Japan, which did not have the necessary access to gold or those, such as India, which were subject to imperial policies that determined that they did not move to a gold standard, remained mostly on a silver standard. A huge divide between silver-based and gold-based economies resulted. The worst affected were economies with a silver standard that traded mainly with economies with a gold standard. With discovery of more and more silver reserves, those currencies based on gold continued to rise in value and those based on silver were declining due to demonetisation of silver. For India which carried out most of its trade with gold based countries, especially Britain, the impact of this shift

was profound. As the price of silver continued to fall, so too did the exchange value of the rupee, when measured against sterling.

British East India Company rule

During this period, the East India Company began tax administration reforms in a fast expanding empire spread over 250 million acres (1,000,000 km2), or 35 per cent of Indian domain. Indirect rule was also established on protectorates and buffer states. The Company treasury reported annual revenue of £111 million in circa 1800. This needs to converted to Indian Rupees with the falling price of Rupee to assess the impact on Indian economy.

Ray (2009) raises three basic questions about the 19th-century cotton textile industry in Bengal: when did the industry begin to decay, what was the extent of its decay during the early 19th century, and what were the factors that led to this? Since there is no data on production, Ray uses the industry's market performance and its consumption of raw materials. Ray challenges the prevailing belief that the industry's permanent decline started in the late 18th century or the early 19th century. The decline actually started in the mid-1820s. The pace of its decline was, however, slow though steady at the beginning, but reached crisis point by 1860, when 563,000 workers lost their jobs. Ray estimates that the industry shrank by about 28% by 1850. However, it survived in the high-end and low-end domestic markets. Ray agrees that British discriminatory policies undoubtedly depressed the industry's export outlet, but suggests its decay is better explained by technological innovations in Britain.

The absence of industrialisation during the colonial period

Historians have questioned why India did not undergo industrialisation in the nineteenth century in the way that Britain did. In the seventeenth century, India was a relatively urbanised and commercialised nation with a buoyant export trade, devoted largely to cotton textiles, but also including silk, spices, and rice. By the end of the century, India was the world's main producer of cotton textiles and had a substantial export trade to Britain, as well as many other European countries, via the East India Company. Yet as British cotton industry underwent a technological revolution in the late eighteenth century, the Indian industry stagnated, and industrialisation in India was delayed until the twentieth century. Historians have suggested that this was because India was still a largely agricultural nation with low wages levels. In Britain, wages were high,

so cotton producers had the incentive to invent and purchase expensive new labour-saving technologies. In India, by contrast, wages levels were low, so producers preferred to increase output by hiring more workers rather than investing in technology.

British Raj

The formal dissolution of the declining Mughal Dynasty heralded a change in British treatment of Indian subjects. During the British Raj, massive railway projects were begun in earnest and government jobs and guaranteed pensions attracted a large number of upper caste Hindus into the civil service for the first time. British cotton exports reach 55 per cent of the Indian market by 1875. Industrial production as it developed in European factories was unknown in India until the 1850s when the first cotton mills were opened in Bombay, posing a challenge to the cottage-based home production system based on family labour.

The worldwide Great Depression of 1929 had a small direct impact on traditional India, with relatively little impact on the modern secondary sector. The government did little to alleviate distress, and was focused mostly on shipping gold to Britain. The worst consequences involved deflation, which increased the burden of the debt on villagers while lowering the cost of living. In terms of volume of total economic output, there was no decline between 1929 and 1934. Falling prices for jute (and also wheat) hurt larger growers. The worst hit sector was jute, based in Bengal, which was an important element in overseas trade; it had prospered in the 1920s but was hard hit in the 1930s. In terms of employment, there was some decline, while agriculture and small-scale industry also exhibited gains. The most successful new industry was sugar, which had meteoric growth in the 1930s.

The newly independent but weak Union government's treasury reported annual revenue of £334 million in 1950. In contrast, Nizam Asaf Jah VII of south India was widely reported to have a fortune of almost £668 million then. About one-sixth of the national population were urban by 1950. A US Dollar was exchanged at 4.79 Rupees.

CHAPTER 3

Foreign Direct Investment

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Definitions

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable.

As a part of the national accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M)[Consumption + gross Investment + Government spending +(eXports - iMports], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements

Types

Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.... fdi is building new facilities

Methods

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

1) by incorporating a wholly owned subsidiary or company anywhere

2) by acquiring shares in an associated enterprise

3) through a merger or an acquisition of an unrelated enterprise

4) participating in an equity joint venture with another investor or enterprise

Forms of FDI incentives

1) Foreign direct investment incentives may take the following forms:

2) low corporate tax and individual income tax rates

3) tax holidays

4) other types of tax concessions

5) preferential tariffs

6) special economic zones

7) EPZ – Export Processing Zones

8) Bonded warehouses

9) Maquiladoras

10) investment financial subsidies

11) soft loan or loan guarantees

12) free land or land subsidies

13) relocation & expatriation

14) infrastructure subsidies

15) R&D support

16) derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. The data available to confirm this are freely available.

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses.

Developing world

A 2010 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

China

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

India

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh . As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI limit in aviation sector is maximum 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

United States

Broadly speaking, the U.S. has a fundamentally 'open economy' and low barriers to foreign direct investment.

U.S. FDI totaled $194 billion in 2010. 84% of FDI in the U.S. in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. A 2008 study by the Federal Reserve Bank of San Francisco indicated that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.

White House data reported in July 1991 found that a total of 5.7 million workers were employed at facilities highly dependent on foreign direct investors. Thus, about 13% of the American manufacturing workforce depended on such investments. The average pay of said jobs was found as around $70,000 per worker, over 30% higher than the average pay across the entire U.S. workforce.

President Barack Obama said in 2012, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people."

In September 2013, the United States House of Representatives voted to pass the Global Investment in American Jobs Act of 2013 (H.R. 2052; 113th Congress), a bill which would direct the United States Department of Commerce to "conduct a review of the global competitiveness of the United States in attracting foreign direct investment." Supporters of the bill argued that increased foreign direct investment would help job creation in the United States.

Canada

Foreign direct investment by country and by industry are tracked by Statistics Canada. Foreign direct investment accounted for CAD$634bn in 2012. Canada eclipses the US in this important economic measure. Global FDI inflows and outflows are tabulated by Statistics Canada.

United Kingdom

The United Kingdom has a very free market economy and open to foreign investment. The current Prime Minister David Cameron has sought investment from emerging markets and from

the Far East in particular and some of Britain's largest infrastructure including energy and skyscrapers such as The Shard have been built with foreign investment. The United Kingdom has been a nation of free trade and open to global markets and investment for decades often taking advantage of countries looking to make investments.

CHAPTER 4

The Reserve Bank of India

The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee. It was established on 1 April 1935 during the British Raj in accordance with the provisions of the Reserve Bank of India Act, 1934. The share capital was divided into shares of 100 each fully paid, which was entirely owned by private shareholders in the beginning. Following India's independence in 1947, the RBI was nationalised in the year 1949.

The RBI plays an important part in the development strategy of the Government of India. It is a member bank of the Asian Clearing Union. The general superintendence and direction of the RBI is entrusted with the 21-member- Central Board of Directors—the Governor (currently Raghuram Rajan), four Deputy Governors, two Finance Ministry representative, ten government-nominated directors to represent important elements from India's economy, and four directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. Each of these local boards consists of five members who represent regional interests, as well as the interests of co-operative and indigenous banks.

The bank is also active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion (AFI).

History

1935–1950

The Reserve Bank of India was founded on 1 April 1935 to respond to economic troubles after the First World War. It began according to the guidelines laid down by Dr. Ambedkar. RBI was conceptualized as per the guidelines, working style and outlook presented by Ambedkar in front of the Hilton Young Commission. When this commission came to India under the name of "Royal Commission on Indian Currency & Finance", each and every member of this commission were holding Ambedkar's book titled The Problem of the Rupee – It's origin and it's solution. The bank was set up based on the recommendations of the 1926 Royal Commission on Indian Currency and Finance, also known as the Hilton–Young Commission. The original choice for the seal of RBI was The East India Company Double Mohur, with the sketch of the Lion and Palm

Tree. However it was decided to replace the lion with the tiger, the national animal of India. The Preamble of the RBI describes its basic functions to regulate the issue of bank notes, keep reserves to secure monetary stability in India, and generally to operate the currency and credit system in the best interests of the country. The Central Office of the RBI initially established in Calcutta (now Kolkata), but was permanently moved to Bombay (now Mumbai) in 1937. The RBI also acted as Burma's central bank, except during the years of the Japanese occupation of Burma (1942–45), until April 1947, even though Burma seceded from the Indian Union in 1937. After the Partition of India in 1947, the Bank served as the central bank for Pakistan until June 1948 when the State Bank of Pakistan commenced operations. Though originally set up as a shareholders' bank, the RBI has been fully owned by the Government of India since its nationalization in 1949.

1950–1960

In the 1950s the Indian government, under its first Prime Minister Jawaharlal Nehru, developed a centrally planned economic policy that focused on the agricultural sector. The administration nationalized commercial banks and established, based on the Banking Companies Act of 1949 (later called the Banking Regulation Act), a central bank regulation as part of the RBI. Furthermore, the central bank was ordered to support the economic plan with loans.

1960–1969

As a result of bank crashes, the RBI was requested to establish and monitor a deposit insurance system. It should restore the trust in the national bank system and was initialized on 7 December 1961. The Indian government founded funds to promote the economy and used the slogan "Developing Banking". The government of India restructured the national bank market and nationalized a lot of institutes. As a result, the RBI had to play the central part of control and support of this public banking sector.

1969–1985

In 1969, the Indira Gandhi-headed government nationalized 14 major commercial banks. Upon Gandhi's return to power in 1980, a further six banks were nationalized. The regulation of the economy and especially the financial sector was reinforced by the Government of India in the

1970s and 1980s. The central bank became the central player and increased its policies for a lot of tasks like interests, reserve ratio and visible deposits. These measures aimed at better economic development and had a huge effect on the company policy of the institutes. The banks lent money in selected sectors, like agri-business and small trade companies.

The branch was forced to establish two new offices in the country for every newly established office in a town. The oil crises in 1973 resulted in increasing inflation, and the RBI restricted monetary policy to reduce the effects.

1985–1991

A lot of committees analysed the Indian economy between 1985 and 1991. Their results had an effect on the RBI. The Board for Industrial and Financial Reconstruction, the Indira Gandhi Institute of Development Research and the Security & Exchange Board of India investigated the national economy as a whole, and the security and exchange board proposed better methods for more effective markets and the protection of investor interests. The Indian financial market was a leading example for so-called "financial repression" (Mackinnon and Shaw). The Discount and Finance House of India began its operations on the monetary market in April 1988; the National Housing Bank, founded in July 1988, was forced to invest in the property market and a new financial law improved the versatility of direct deposit by more security measures and liberalisation.

1991–2000

The national economy came down in July 1991 and the Indian rupee was devalued. The currency lost 18% relative to the US dollar, and the Narsimham Committee advised restructuring the financial sector by a temporal reduced reserve ratio as well as the statutory liquidity ratio. New guidelines were published in 1993 to establish a private banking sector. This turning point should reinforce the market and was often called neo-liberal. The central bank deregulated bank interests and some sectors of the financial market like the trust and property markets. This first phase was a success and the central government forced a diversity liberalisation to diversify owner structures in 1998.

The National Stock Exchange of India took the trade on in June 1994 and the RBI allowed nationalized banks in July to interact with the capital market to reinforce their capital base. The central bank founded a subsidiary company—the Bharatiya Reserve Bank Note Mudran Limited—in February 1995 to produce banknotes.

Since 2000

The Foreign Exchange Management Act from 1999 came into force in June 2000. It should improve the ftem in 2004–2005 (National Electronic Fund Transfer). The Security Printing & Minting Corporation of India Ltd., a merger of nine institutions, was founded in 2006 and produces banknotes and coins.

The national economy's growth rate came down to 5.8% in the last quarter of 2008–2009 and the central bank promotes the economic development.

Structure

Central Board of Directors

The Central Board of Directors is the main committee of the central bank. The Government of India appoints the directors for a four-year term. The Board consists of a governor, four deputy governors, fifteen directors to represent the regional boards, two from the Ministry of Finance and ten other directors from various fields.

Governors

The current Governor of RBI is Raghuram Rajan. There are four deputy governors, Deputy Governor K C Chakrabarty, Anand Sinha, H R Khan and Urjit Patel. Deputy Governor K C Chakrabarty's term has been extended further by 2 years. Subir Gokarn was replaced by Urjit Patel in January 2013.

Supportive bodies

The Reserve Bank of India has ten regional representations: North in New Delhi, South in Chennai, East in Kolkata and West in Mumbai. The representations are formed by five members, appointed for four years by the central government and serve—beside the advice of the Central

Board of Directors—as a forum for regional banks and to deal with delegated tasks from the central board. The institution has 22 regional offices.

The Board of Financial Supervision (BFS), formed in November 1994, serves as a CCBD committee to control the financial institutions. It has four members, appointed for two years, and takes measures to strength the role of statutory auditors in the financial sector, external monitoring and internal controlling systems.

The Tarapore committee was set up by the Reserve Bank of India under the chairmanship of former RBI deputy governor S. S. Tarapore to "lay the road map" to capital account convertibility. The five-member committee recommended a three-year time frame for complete convertibility by 1999–2000.

On 1 July 2007, in an attempt to enhance the quality of customer service and strengthen the grievance redressal mechanism, the Reserve Bank of India created a new customer service department.

Offices and branches

The Reserve Bank of India has four zonal offices. It has 19 regional offices at most state capitals and at a few major cities in India. Few of them are located in Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Jammu, Kanpur, Kolkata, Lucknow, Mumbai, Nagpur, Patna, and Thiruvananthapuram. It also has 9 sub-offices located in Agartala, Dehradun, Gangtok, Kochi, Panaji, Raipur, Ranchi, Shillong, Shimla and Srinagar.

The bank has also two training colleges for its officers, viz. Reserve Bank Staff College at Chennai and College of Agricultural Banking at Pune. There are also four Zonal Training Centres at Mumbai, Chennai, Kolkata and New Delhi.

Main functions

Reserve Bank of India regional office, Delhi entrance with the Yakshini sculpture depicting "Prosperity through agriculture".

The regional office of RBI (in sandstone)in front of GPO(in white) at Dalhousie Square, Kolkata.

Bank of Issue

Under Section 22 of the Reserve Bank of India Act, the Bank has the sole right to issue bank notes of all denominations.(except one rupee note and coin, which are issued by Ministry of finance).

The distribution of two rupee notes and coins and small coins all over the country is undertaken by the Reserve Bank as agent of the government. The Reserve Bank has a separate Issue Department which is entrusted with the issue of currency notes. The assets and liabilities of the Issue Department are kept separate from those of the Banking Department.

Monetary authority

The Reserve Bank of India is the main monetary authority of the country and beside that the central bank acts as the bank of the national and state governments. It formulates, implements and monitors the monetary policy as well as it has to ensure an adequate flow of credit to productive sectors.

Regulator and supervisor of the financial system

The institution is also the regulator and supervisor of the financial system and prescribes broad parameters of banking operations within which the country's banking and financial system functions.Its objectives are to maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public. The Banking Ombudsman Scheme has been formulated by the Reserve Bank of India (RBI) for effective addressing of complaints by bank customers. The RBI controls the monetary supply, monitors economic indicators like the gross domestic product and has to decide the design of the rupee banknotes as well as coins.

Managerial of exchange control

The central bank manages to reach the goals of the Foreign Exchange Management Act, 1999. Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency

The bank issues and exchanges or destroys currency notes and coins that are not fit for circulation. The objectives are giving the public adequate supply of currency of good quality and to provide loans to commercial banks to maintain or improve the GDP. The basic objectives of RBI are to issue bank notes, to maintain the currency and credit system of the country to utilize it in its best advantage, and to maintain the reserves. RBI maintains the economic structure of the country so that it can achieve the objective of price stability as well as economic development, because both objectives are diverse in themselves.

Banker of Banks

RBI also works as a central bank where commercial banks are account holders and can deposit money.RBI maintains banking accounts of all scheduled banks. Commercial banks create credit. It is the duty of the RBI to control the credit through the CRR, bank rate and open market operations. As banker's bank, the RBI facilitates the clearing of cheques between the commercial banks and helps inter-bank transfer of funds. It can grant financial accommodation to schedule banks. It acts as the lender of the last resort by providing emergency advances to the banks. It supervises the functioning of the commercial banks and take action against it if need arises.

Detection of Fake currency

In order to curb the fake currency menace, RBI has launched a website to raise awareness among masses about fake notes in the market.www.paisaboltahai.rbi.org.in provides information about identifying fake currency.

On January 22, 2014; RBI gave a press release stating that after March 31, 2014, it will completely withdraw from circulation all banknotes issued prior to 2005. From April 1, 2014, the public will be required to approach banks for exchanging these notes. Banks will provide exchange facility for these notes until further communication. The Reserve Bank has also clarified that the notes issued before 2005 will continue to be legal tender. This would mean that banks are required to exchange the notes for their customers as well as for non-customers. From July 01, 2014, however, to exchange more than 10 pieces of `500 and `1000 notes, non-customers will have to furnish proof of identity and residence to the bank branch in which she/he wants to exchange the notes. This move from the Reserve Bank is expected to unearth black

money held in cash. As the new currency notes have added security features, they would help in curbing the menace of fake currency.

Developmental role

The central bank has to perform a wide range of promotional functions to support national objectives and industries. The RBI faces a lot of inter-sectoral and local inflation-related problems. Some of this problems are results of the dominant part of the public sector.

Related functions

The RBI is also a banker to the government and performs merchant banking function for the central and the state governments. It also acts as their banker. The National Housing Bank (NHB) was established in 1988 to promote private real estate acquisition. The institution maintains banking accounts of all scheduled banks, too. RBI on 7 August 2012 said that Indian banking system is resilient enough to face the stress caused by the drought like situation because of poor monsoon this year.

Policy rates and reserve ratios

Bank Rate

RBI lends to the commercial banks through its discount window to help the banks meet depositor's demands and reserve requirements for long term. The Interest rate the RBI charges the banks for this purpose is called bank rate. If the RBI wants to increase the liquidity and money supply in the market, it will decrease the bank rate and if RBI wants to reduce the liquidity and money supply in the system, it will increase the bank rate. As of 29 jan, 2014, the bank rate was 9.00%.

Reserve requirement cash reserve ratio (CRR)

Every commercial bank has to keep certain minimum cash reserves with RBI. Consequent upon amendment to sub-Section 42(1), the Reserve Bank, having regard to the needs of securing the monetary stability in the country, RBI can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate, [Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks

between 5% and 20% of total of their demand and time liabilities]. RBI uses this tool to increase or decrease the reserve requirement depending on whether it wants to effect a decrease or an increase in the money supply. An increase in Cash Reserve Ratio (CRR) will make it mandatory on the part of the banks to hold a large proportion of their deposits in the form of deposits with the RBI. This will reduce the size of their deposits and they will lend less. This will in turn decrease the money supply. The current rate is 4.00%.. -25 basis points cut in Cash Reserve Ratio(CRR) on 17 September 2012, It will release Rs 17,000 crore into the system/Market. The RBI lowered the CRR by 25 basis points to 4.25% on 30 October 2012, a move it said would inject about 175 billion rupees into the banking system in order to pre-empt potentially tightening liquidity. The latest CRR as on 29/10/13 is 5%

Statutory Liquidity ratio (SLR)

Apart from the CRR, banks are required to maintain liquid assets in the form of gold, cash and approved securities. Higher liquidity ratio forces commercial banks to maintain a larger proportion of their resources in liquid form and thus reduces their capacity to grant loans and advances, thus it is an anti-inflationary impact. A higher liquidity ratio diverts the bank funds from loans and advances to investment in government and approved securities.The latest SLR as on 14/12/13 is 23%

In well-developed economies, central banks use open market operations—buying and selling of eligible securities by central bank in the money market—to influence the volume of cash reserves with commercial banks and thus influence the volume of loans and advances they can make to the commercial and industrial sectors. In the open money market, government securities are traded at market related rates of interest. The RBI is resorting more to open market operations in the more recent years.

Generally RBI uses three kinds of selective credit controls:

Minimum margins for lending against specific securities.

Ceiling on the amounts of credit for certain purposes.

Discriminatory rate of interest charged on certain types of advances.

Direct credit controls in India are of three types:

Part of the interest rate structure i.e. on small savings and provident funds, are administratively set.

Banks are mandatory required to keep 23% of their deposits in the form of government securities.

Banks are required to lend to the priority sectors to the extent of 40% of their advances.

Publications

The report on “Trend and Progress of Banking In India’’ is an annual publication, which the RBI has to submit to the government in terms of the Banking Regulation Act 1949. The report is an authentic account of the developments in the financial sector.

CHAPTER 5

Poverty in India

Poverty in India is widespread, with the nation estimated to have a third of the world's poor. In 2010, the World Bank reported that 32.7% of all people in India fall below the international poverty line of US$ 1.25 per day (PPP) while 68.7% live on less than US$ 2 per day.
According to 2010 data from the United Nations Development Programme, an estimated 29.8% of Indians live below the country's national poverty line. A 2010 report by the Oxford Poverty and Human Development Initiative (OPHI) states that 8 Indian states have 421 million poor people. A 2013 UN report stated that a third of the worlds poorest people live in India.

According to a 2011 poverty Development Goals Report, as many as 320 million people in India and China are expected to come out of extreme poverty in the next four years, with India's poverty rate projected to drop from 51% in 1990 to about 22% in 2015. The report also indicates that in Southern Asia, only India is on track to cut poverty by half by the 2015 target date.

Defining the poverty line is itself a subjective matter, and many feel that it should be raised further. Indian journalist Ravi S Jha suggests measuring poverty by segregating India's poor in different groups; those living in abject poverty, those who are vulnerable to poverty and those who are lifted out of poverty through government welfare. The urban areas where India’s middle and upper classes make their living have seen the greatest degree of economic growth, while the rural areas have lagged further behind. Since 1991, India has undergone a great deal of liberalisation internally and externally, but its benefits have mostly gone to the middle and upper classes.

The latest UNICEF data shows that one in three malnourished children worldwide are found in India, whilst 42% of the nation's children under five years of age are underweight. It also shows that a total of 58% of children under five surveyed were stunted. Rohini Mukherjee, of the Naadi foundation – one of the NGOs that published the report – stated India is "doing worse than sub-Saharan Africa." However, the main cause for this malnourishment is dietary practices, and not economic poverty. To quote the same Rohini Mukherjee "It is very clear that in Africa (malnutrition) is a result of absolute poverty. They are starving... In our case, to me it seems it is about eating and feeding practices... Most children we measured have never been hungry, but

what the child is eating is almost all carbohydrate." Too many women underestimate the need to breastfeed an infant during its first six months. People often consider Colostrum—a vital high-protein milk-form produced just before birth—as being impure and discard it.

The 2011 Global Hunger Index (GHI) Report places India amongst the three countries where the GHI between 1996 and 2011 went up from 22.9 to 23.7, while 78 out of the 81 developing countries studied, including Pakistan, Nepal, Bangladesh, Vietnam, Kenya, Nigeria, Myanmar, Uganda, Zimbabwe and Malawi, succeeded in improving hunger conditions.

Poverty estimates

Pre-independence

National Planning Committee (1936)

The National Planning Committee in 1936 under Nehru recognized that "there was lack of food, of clothing, of housing and of every other essential requirement of human existence". Against this assessment, the Committee declared that the development policy objective should be to "ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people" . Towards this end, the Committee defined goals for the total population in terms of nutrition (involving a balanced diet of 2400 to 2800 calories per adult worker), clothing (30 yards per capita per annul), and housing (100 sq. ft per capita).

Working Group (1962)

After taking into account the recommendations of the 1958 Nutrition Advisory Committee of the Indian Council of Medical Research regarding balanced diet, the first attempt to define a poverty line after independence was made in 1962 by a Working Group of eminent economists and social thinkers. The Working Group was set up by the Seminar on Some Aspects of Planning and consisted of Prof. D.R. Gadgil, Dr. B.N. Ganguli, Dr. P.S. Lokanathan, M.R. Masani, Ashok Mehta, Pitambar Pant, Dr. V.K.R.V. Rao, Shriman Narayan, Anna Saheb Sahasrabuddhe. It recommended in 1962 that:

The national minimum for each household of 5 persons (4 adult consumption units) should be not less than 100 per month in terms of 1960–61 prices or 20 per-capita. For urban areas, this

figure will have to be raised to 125 per month per household or 25 per capita to cover the higher prices of the physical volume of commodities on which the national minimum is calculated.

An element of subsidy in urban housing will have to be included after taking 10 per month, or 10 per-cent as the rent element payable from the proposed national minimum of 100 per month.

But, this national minimum, considered adequate to ensure minimum energy requirements for an active and healthy life and also minimum clothing and shelter, did not include expenditures on health and education, which are to be provided by the State as per the Directive Principles of State Policy of Indian Constitution.

Dandekar and Rath (1971)

V M Dandekar and Nilakantha Rath in their work "Poverty in India" used an average norm of 2,250 calories per capita per day for both rural and urban areas, as a criterion to define the poverty line. On the basis of NSSO data on consumer expenditure, the study revealed that, in rural area, the households with an annual per capita expenditure of 170.80 (or equivalently 14.20 per-capita per month) at the 1960–61 prices consumed on an average food with calorie equivalent of 2250 per capita per day together with such non-food items as they chose.

The corresponding figures in the urban area were 271.70 and 22.60 at 1960–61 prices. Comparing their studies with that of the 1962 Work Group Report, they revised the rural minimum upwards to 180 per-annum or 15 per month. Similarly, they rounded off the urban minimum to 270 per annum or 22.50 per month, both at 1960–61 prices. According to their estimate, about 40 percent of the rural population and 50 percent of the urban population lived below this poverty line in 1960–61.

Task Force (1979)

The "Task Force on Projections of Minimum Needs and Effective Consumption Demand", of the Perspective Planning Division, under Planning Commission defined the poverty line as the per-capita expenditure level at which the average per-capita, per day calorie intake was 2435 calories in rural areas and 2095 calories for urban areas. The Task Force used the age, sex-activity specific calorie allowances recommended by the Nutrition Expert Group (1968) to estimate the average daily per capita requirements for rural and urban areas using the age-sex-occupational

structure of their respective population (as projected for 1982–83). For reasons of convenience the calorie norms were rounded off to 2400 calories per capita per day for rural areas and 2100 calories per capita per day for urban areas.The monetary equivalent of these norms (i.e., poverty lines), were calculated using the 28th Round (1973–74) NSS data relating to household sector consumption both in quantitative and value terms. Based on the observed consumer behaviour in 1973–74 it was estimated that, on an average, consumer expenditure of Rs.49.09 per capita per month was associated with a calorie intake of 2400 per capita per day in rural areas and Rs.56.64 per capita per month with a calorie intake of 2100 per day in urban areas.

Expert Group (1993)

An Expert Group on 'Estimation of Proportion and Number of Poor' was constituted under the Chairmanship of Professor D.T. Lakdawala, to look into the methodology for estimation of poverty and re-define the poverty line, if necessary. The Expert Group submitted its report in 1993. The Expert Group recommended that the poverty line approach anchored in a calorie norm and associated with a fixed consumption basket (as recommended by the 1979 Task Force) might be continued. However, the Expert Group further recommended that the state-specific poverty lines be worked out. This was done in two steps.

To work out State-specific poverty lines for the base year 1973–74 by taking the standardised commodity basket corresponding to the poverty line at the national level and valuing it at the prices prevailing in each state in the base year.

Updating the poverty line to reflect current prices in a given year by applying state-specific consumer price indices.

Another recommendation of the Expert Group was to abandon the pro-rata adjustment of NSS-based total household consumption expenditure to National Accounts Statistics–based total private consumption expenditure as the gap between the two had widened over time. The Expert Group observed that it was better to rely exclusively on the NSS for estimating the poverty ratios. The Government of India accepted the recommendations of the Expert Group with minor modifications in 1997.

There has been no uniform measure of poverty in India. The Planning Commission of India has accepted the Tendulkar Committee report which says that 33% of people in India live below the poverty line (BPL).

The Arjun Sengupta Report (from the National Commission for Enterprises in the Unorganised Sector), based on data between the period 1993–94 and 2004–05, states that 77% of Indians live on less than 20 a day (about US$0.50 per day). The N.C. Saxena Committee report states, on account of calorific intake apart from nominal income, that 50% of Indians live below the poverty line.

A study by the Oxford Poverty and Human Development Initiative using a Multi-dimensional Poverty Index (MPI) found that there were 650 million people (53.7% of population) living in poverty in India, of which 340 million people (28.6% of the population) were living in severe poverty, and that a further 198 million people (16.4% of the population) were vulnerable to poverty. 421 million of the poor are concentrated in eight North Indian and East Indian states of Bihar, Chattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal. This number is higher than the 410 million poor living in the 26 poorest African nations. The states are listed below in increasing order of poverty based on the Multi-dimensional Poverty Index. kerala has the lowest percentage of people below poverty line.

Estimates by NCAER (National Council of Applied Economic Research) show that 48% of the Indian households earn more than 90,000 (US$1,440.00) annually (or more than US$ 3 PPP per person). According to NCAER, in 2009, of the 222 million households in India, the absolutely poor households (annual incomes below 45,000) accounted for only 15.6% of them or about 35 million (about 200 million Indians). Another 80 million households are in income levels of 45,000– 90,000 per year. These numbers also are more or less in line with the latest World Bank estimates of the "below-the-poverty-line" households that may total about 100 million (or about 456 million individuals).

Impact of poverty

Since the 1950s, the Indian government and non-governmental organisations have initiated several programmes to alleviate poverty, including subsidising food and other necessities, increased access to loans, improving agricultural techniques and price supports, and promoting

education and family planning. These measures have helped eliminate famines, cut absolute poverty levels by more than half, and reduced illiteracy and malnutrition.

The presence of a massive parallel economy in the form of black (hidden) money derived from foreign aid has also contributed to the slow pace of poverty alleviation in India.

Although the Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing social groups, economic groups, geographic regions, and rural and urban areas. Between 1999 and 2008, the annualised growth rates for Gujarat, Haryana, or Delhi were much higher than for Bihar, Uttar Pradesh, or Madhya Pradesh. Poverty rates in rural Orissa (43%) and rural Bihar (41%) are among the world's most extreme.

Despite significant economic progress, one quarter of the nation's population earns less than the government-specified poverty threshold of 32 per day (approximately US$ 0.6).

According to a 2010 World Bank report, India is on track to meet its poverty reduction goals. However by 2015, an estimated 53 million people will still live in extreme poverty and 23.6% of the population will still live under US$1.25 per day. This number is expected to reduce to 20.3% or 268 million people by 2020. However, at the same time, the effects of the worldwide recession in 2009 have plunged 100 million more Indians into poverty than there were in 2004, increasing the effective poverty rate from 27.5% to 37.2%.

As per the 2001 census, 35.5% of Indian households availed of banking services, 35.1% owned a radio or transistor, 31.6% a television, 9.1% a phone, 43.7% a bicycle, 11.7% a scooter, motorcycle or a moped, and 2.5% a car, jeep or van; 34.5% of the households had none of these assets. According to Department of Telecommunications of India the phone density reached 73.34% by December 2012 and has an annual growth decreased by −4.58%. This tallies with the fact that a family of four with an annual income of 137,000 could afford some of these luxury items.

Causes

One cause is a high population growth rate, although demographers generally agree that this is a symptom rather than cause of poverty. While services and industry have grown at double-digit figures, agriculture growth rate has dropped from 4.8% to 2%. About 60% of the population

depends on agriculture whereas the contribution of agriculture to the GDP is about 18%. The surplus of labour in agriculture has caused many people to not have jobs. Farmers are a large vote bank and use their votes to resist reallocation of land for higher-income industrial project.

Caste system

According to S. M. Michael, Dalits constitute the bulk of poor and unemployed. According to William A. Haviland, casteism is widespread in rural areas and continues to segregate Dalits. Others, however, have noted the steady rise and empowerment of the Dalits through social reforms and the implementation of reservations in employment and benefits.

CHAPTER 6

Labour in India

The labour sector of the Indian economy consists of roughly 487 million workers, the second largest after China. Of these over 94 percent work in unincorporated, unorganised enterprises ranging from pushcart vendors to home-based diamond and gem polishing operations. The organised sector includes workers employed by the government, state-owned enterprises and private sector enterprises. In 2008, the organised sector employed 27.5 million workers, of which 17.3 million worked for government or government owned entities.

Labour structure in India

Over 94 percent of India's working population is part of the unorganised sector. In local terms, organised sector or formal sector in India refers to licensed organisations, that is, those who are registered and pay sales tax, income tax, etc. These include the publicly traded companies, incorporated or formally registered entities, corporations, factories, shopping malls, hotels, and large businesses. Unorganised sector, also known as informal sector or own account enterprises, refers to all unlicensed, self-employed or unregistered economic activity such as owner manned general stores, handicrafts and handloom workers, rural traders, farmers, etc.

India's Ministry of Labour, in its 2008 report, classified the unorganised labour in India into four groups. This classification categorized India's unorganised labour force by occupation, nature of employment, specially distressed categories and service categories. The unorganised occupational groups include small and marginal farmers, landless agricultural labourers, share croppers, fishermen, those engaged in animal husbandry, beedi rolling, labeling and packing, building and construction workers, leather workers, weavers, artisans, salt workers, workers in brick kilns and stone quarries, workers in saw mills, and workers in oil mills. A separate category based on nature of employment includes attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers. Another separate category dedicated to distressed unorganised sector includes toddy tappers, scavengers, carriers of head loads, drivers of animal driven vehicles, loaders and unloaders. The last unorganised labour category includes service workers such as midwives, domestic workers, barbers, vegetable and fruit vendors, newspaper vendors, pavement vendors, hand cart operators, and the unorganised retail.

The unorganised sector has low productivity and offers lower wages. Even though it accounted for over 94 percent of workers, India's unorganised sector created just 57 percent of India's national domestic product in 2006, or about 9 fold less per worker than the organised sector. According to Bhalla, the productivity gap sharply worsens when rural unorganised sector is compared to urban unorganised sector, with gross value added productivity gap spiking an additional 2 to 4 fold depending on occupation. Some of lowest income jobs are in the rural unorganised sectors. Poverty rates are reported to be significantly higher in families where all working age members have only worked the unorganised sector throughout their lives.

Agriculture, dairy, horticulture and related occupations alone employ 52 percent of labour in India.

About 30 million workers are migrant workers, most in agriculture, and local stable employment is unavailable for them.

India's National Sample Survey Office in its 67th report found that unorganised manufacturing, unorganised trading/retail and unorganised services employed about 10 percent each of all workers nationwide, as of 2010. It also reported that India had about 58 million unincorporated non-Agriculture enterprises in 2010.

In the organised private sector with more than 10 employees per company, the biggest employers in 2008 were manufacturing at 5 million; social services at 2.2 million, which includes private schools and hospitals; finance at 1.1 million which includes bank, insurance and real estate; and agriculture at 1 million. India had more central and state government employees in 2008, than employees in all private sector companies combined. If state-owned companies and municipal government employees were included, India had a 1.8:1 ratio between public sector employees and private sector employees. In terms of gender equality in employment, male to female ratio was 5:1 in government and government owned enterprises; private sector fared better at 3:1 ratio. Combined, counting only companies with more than 10 employees per company, the organised public and private sector employed 5.5 million women and 22 million men.

Given its natural rate of population growth and aging characteristics, India is adding about 13 million new workers every year to its labour pool. India's economy has been adding about 8 million new jobs every year predominantly in low paying, unorganised sector. The remaining 5

million youth joining the ranks of poorly paid partial employment, casual labour pool for temporary infrastructure and real estate construction jobs, or in many cases, being unemployed.

Labour relations

About 7 per cent of the 400 million-strong workforce were employed in the formal sector (comprising government and corporates) in 2000 contributing a whopping 60 per cent of the nominal GDP of the nation. The Trade Unions Act of 1926 provided recognition and protection for a nascent Indian labour union movement. The number of unions grew considerably after independence, but most unions are small and usually active in only one firm.

In 1997, India had about 59,000 trade unions registered with the government of India. Of these only 9,900 unions filed income and expenditure reports and claimed to represent 7.4 million workers. The state of Kerala at 9,800 trade unions had the highest number of registered unions, but only few filed income and expenditure reports with the government of India. The state of Karnataka had the fastest growth in number of unions between 1950s to 1990s.

In 1995, India had 10 central federations of trade unions, namely (arranged by number of member unions in 1980): INTUC, CITU, BMS, AITUC, HMS, NLO, UTUC, UTUC-LS, NFITU and TUCC. Each federation had numerous local trade union affiliates, with the smallest TUCC with 65 and INTUC with 1604 affiliated unions. By 1989, BMS had become India's largest federation of unions with 3,117 affiliated unions, while INTUC remained the largest federation by combined number of members at 2.2 million. The largest federation of trade unions, INTUC, represents about 0.5% of India's labour force in organised sector and unorganised sector. In 2010, over 98% of Indian workers did not belong to any trade unions and were not covered by any collective bargaining agreements.

Labour relations during 1950-1990

A number of economists (e.g.: Fallon and Lucas, 1989; Besley and Burgess, 2004) have studied the industrial relations climate in India, with a large number of studies focusing on state-level differences in India's Industrial Disputes Act. Some studies (e.g.: Besley and Burges, 2004) purport to show that pro-worker amendments to the Industrial Disputes Act have had a negative

impact on industrial output and employment - as well as on poverty. However these studies have faced serious criticism on the grounds that the data used are misinterpreted, and that the results are not robust with respect to standard econometric tests.

Between 1950 and 1970, labour disputes nearly tripled in India, from an average of 1000 labour disputes per year, to an average of 3000 labour disputes per year. The number of labour relations issues within a year peaked in 1973 at 3,370 labour disputes. The number of workers who joined labour disputes within the same year, and stopped work, peaked in 1979, at 2.9 million workers. The number of lost man-days from labour relation issues peaked in 1982 at 74.6 million lost man-days, or about 2.7% of total man-days in organised sector. While the 1970s experienced a spike in labour unions and disputes, an sudden reduction in labour disputes was observed during 1975-1977, when Indira Gandhi, then prime minister, declared an emergency and amongst other things suspended many civil rights including the worker's right to strike.

Labour relations during 1990-2000

Union membership is concentrated in the organised sector, and in the early 1990s total membership was about 9 million. Many unions are affiliated with regional or national federations, the most important of which are the Indian National Trade Union Congress, the All India Trade Union Congress, the Centre of Indian Trade Unions, the Hind Mazdoor Sabha, and the Bharatiya Mazdoor Sangh. Politicians have often been union leaders, and some analysts believe that strikes and other labour protests are called primarily to further the interests of political parties rather than to promote the interests of the work force.

The government recorded 1,825 strikes and lockouts in 1990. As a result, 24.1 million workdays were lost, 10.6 million to strikes and 13.5 million to lockouts. More than 1.3 million workers were involved in these labour disputes. The number and seriousness of strikes and lockouts have varied from year to year. However, the figures for 1990 and preliminary data from 1991 indicate declines from levels reached in the 1980s, when between 33 to 75 million workdays per year were lost because of labour disputes. In 1999, the government of India recorded about 927 strikes and lockouts, or about half of those for 1990. The number of lost man-days were about the same for 1999 and 1991, even though Indian economic output and number of workers had grown significantly over the 1990s.

Unorganised labour issues

Many issues plague unorganised labour. India's Ministry of Labour has identified significant issues with migrant, home or bondage labourers and child labour.

Migrant workers

India has two broad groups of migrant labourers - one that migrates to temporarily work overseas, and another that migrates domestically on a seasonal and work available basis.

About 4 million Indian-origin labourers are migrant workers in the middle east alone. They are credited to have been the majority of workers who built many of Dubai, Bahrain, Qatar and Persian Gulf modern architecture, including the Burj Khalifa, the tallest building in world's history which opened in January 2010. These migrant workers are attracted by better salaries (typically US$2 to 5 per hour), possibility of earning overtime pay, and opportunity to remit funds to support their families in India. The Middle East-based migrant workers from India remitted about US$20 billion in 2009. Once the projects are over, they are required to return at their own expenses, with no unemployment or social security benefits. In some cases, labour abuses such as unpaid salaries, unsafe work conditions and poor living conditions have been claimed.

Domestic migrant workers have been estimated to be about 4.2 million. These workers range from full-time to part-time workers, temporary or permanent workers. They are typically employed for remuneration in cash or kind, in any household through any agency or directly, to do the household work, but do not include any member of the family of an employer. Some of these work exclusively for a single employer, while others work for more than one employer. Some are live-in workers, while some are seasonal. The employment of these migrant workers is typically at the will of the employer and the worker, and compensation varies.

Debt bondage

Bonded labour is a forced relationship between an employer and an employee, where the compulsion is derived from outstanding debt. Often the interest accrues at a rate that is so high that the bonded labour lasts a very long periods of time, or indefinitely. Sometimes, the employee has no options for employment in the organised or unorganised sectors of India, and

prefers the security of any employment including one offered in bonded labour form. While illegal, bonded labour relationships may be reinforced by force, or they may continue from custom. Once an employee enters into a bonded relationships, they are characterised by asymmetry of information, opportunity, no time to search for alternative jobs and high exit costs.

Estimates of bonded labour in India vary widely, depending on survey methods, assumptions and sources. Official Indian government estimates claim a few hundred thousand labourers are bonded labourers; while estimates by activists and social organisations range between 2.6 to 5 million. The major employment sectors for debt bonded labour include: agriculture, stone quarries, brick kilns, religious and temple workmen, pottery, rural weaving, fishing, forestry, betel and bidi workers, carpet, illegal mining and fireworks. Child labour has been found in family debt bonded situations. In each survey, debt bonded labourers have been found in unorganised, unincorporated sector.

Child labour

According to 2001 Census, India had 12.6 million children, aged 5–14, who work either part-time or full-time. Of these over 60 percent work in unorganised agriculture sector, and the rest in other unorganised labour markets. Poverty, lack of schools, poor education infrastructure and growth of unorganised economy are considered as the most important causes of child labour in India.

Article 24 of India's constitution prohibits child labour. Additionally, various laws and the Indian Penal Code, such as the Juvenile Justice (care and protection) of Children Act-2000, and the Child Labour (Prohibition and Abolition) Act-1986 provide a basis in law to identify, prosecute and stop child labour in India. Nevertheless, child labour is observed in almost all unorganised, small scale, informal sectors of the Indian economy.

Scholars suggest inflexibility and structure of India's labour market, size of informal economy, legal hurdles preventing industries from scaling up and lack of modern manufacturing technologies are major macroeconomic factors encouraging demand for and acceptability of child labour.

CHAPTER 7

Labour laws in India

The labour laws of India originated and express the socio-political views of leaders such as Nehru from pre-1947 independence movement struggle. These laws were expanded in part after debates in Constituent Assemblies and in part from international conventions and recommendations such as of International Labour Organisation. The current mosaic of Indian laws on employment are thus a combination of India's history during its colonial heritage, India's experiments with socialism, important human rights and the conventions and standards that have emerged from the United Nations. The laws cover the right to work of one's choice, right against discrimination, prohibition of child labour, fair and humane conditions of work, social security, protection of wages, redress of grievances, right to organise and form trade unions, collective bargaining and participation in management.

India has numerous labour laws such as those prohibiting discrimination and Child labour, those that aim to guarantee fair and humane conditions of work, those that provide social security, minimum wage, right to organise, form trade unions and enforce collective bargaining. India also has numerous rigid regulations such as maximum number of employees per company in certain sectors of economy, and limitations on employers on retrenchment and layoffs, requirement of paperwork, bureaucratic process and government approval for change in labour in companies even if these are because of economic conditions.

Indian labour laws are considered to be very highly regulated and rigid as compared to those of other countries in the world. The intensity of these laws have been criticised as the cause of low employment growth, large unorganised sectors, underground economy and low per capita income. These have led many to demand reforms for Labour market flexibility in India. India has over 50 major Acts and numerous laws that regulate employers in matters relating to industrial relations, employee unions as well as who, how and when enterprises can employ or terminate employment. Many of these laws survive from British colonial times, while some have been enacted after India's independence from Britain.

India is a federal form of government. Labour is a subject in the concurrent list of the Indian Constitution and therefore labour matters are in the jurisdiction of both central and state

governments. Both central and state governments have enacted laws on labour relations and employment issues. Some of the major laws relevant to India are:

Workmen's Compensation Act of 1923

The Workmen's Compensation Act compensates a workman for any injury suffered during the course of his employment or to his dependents in the case of his death. The Act provides for the rate at which compensation shall be paid to an employee. This is one of many social security laws in India.

Trade Unions Act of 1926

This Act enacted the rules and protections granted to Trade Unions in India. This law was amended in 2001.

Payment of Wages Act of 1936

The Payment of Wages Act regulates by when wages shall be distributed to employees by the employers. The law also provides the tax withholdings the employer must deduct and pay to the central or state government before distributing the wages.

Industrial Employment (Standing orders) Act of 1946

This Act requires employers in industrial establishments to define and post the conditions of employment by issuing so-called standing orders. These standing orders must be approved by the government and duly certified. These orders aim to remove flexibility from the employer in terms of job, hours, timing, leave grant, productivity measures and other matters. The standing orders mandate that the employer classify its employees, state the shifts, payment of wages, rules for vacation, rules for sick leave, holidays, rules for termination amongst others.

Industrial Disputes Act of 1947

The Industrial Disputes act 1947 regulates how employers may address industrial disputes such as lockouts, layoffs, retrenchment etc. It controls the lawful processes for reconciliation, adjudication of labour disputes.

The Act also regulates what rules and conditions employers must comply before the termination or layoff of a workman who has been in continuous service for more than one year with the employer. The employer is required to give notice of termination to the employee with a copy of the notice to appropriate government office seeking government's permission, explain valid reasons for termination, and wait for one month before the employment can be lawfully terminated. The employer may pay full compensation for one month in lieu of the notice. Furthermore, employer must pay an equivalent to 15 days average pay for each completed year of employees continuous service. Thus, an employee who has worked for 4 years in addition to various notices and due process, must be paid a minimum of the employee's wage equivalent to 60 days before retrenchment, if the government grants the employer a permission to layoff.

Minimum Wages Act of 1948

The Minimum Wages Act prescribes minimum wages in all enterprises, and in some cases those working at home per the schedule of the Act. Central and State Governments can and do revise minimum wages at their discretion. The minimum wage is further classified by nature of work, location and numerous other factors at the discretion of the government. The minimum wage ranges between 143 to 1120 per day for work in the so-called central sphere. State governments have their own minimum wage schedules.

Industries (Regulation and Development) Act of 1951

This law declared numerous key manufacturing industries under its so-called First Schedule. It placed many industries under common central government regulations in addition to whatever laws state government enact. It also reserved over 600 products that can only be manufactured in small scale enterprises, thereby regulating who can enter in these businesses, and above all placing a limit on the number of employees per company for the listed products. The list included all key technology and industrial products in early 1950s, including products ranging from certain iron and steel products, fuel derivatives, motors, certain machinery, machine tools, to ceramics and scientific equipment.

Employees Provident Fund and Miscellaneous Provisions Act of 1952

This Act seeks to ensure the financial security of the employees in an establishment by providing for a system of compulsory savings. The Act provides for establishments of a contributory Provident Fund in which employees' contribution shall be at least equal to the contribution payable by the employer. Minimum contribution by the employees shall be 10-12% of the wages. This amount is payable to the employee after retirement and could also be withdrawn partly for certain specified purposes.

Maternity Benefit Act of 1961

The Maternity Benefit Act regulates the employment of the women and maternity benefits mandated by law. Any woman employee who worked in any establishment for a period of at least 80 days during the 12 months immediately preceding the date of her expected delivery, is entitled to receive maternity benefits under the Act. The employer is required to pay maternity benefits, medical allowance, maternity leave and nursing breaks.

Payment of Bonus Act of 1965

This Act, applies to an enterprise employing 20 or more persons. The Act requires employer to pay a bonus to persons on the basis of profits or on the basis of production or productivity. The Act was modified to require companies to pay a minimum bonus, even if the employer suffers losses during the accounting year. This minimum is currently 8.33 percent of the salary.

Payment of Gratuity Act of 1972

This law applies to all establishments employing 10 or more workers. Gratuity is payable to the employee if he or she resigns or retires. The Indian government mandates that this payment be at the rate of 15 days salary of the employee for each completed year of service subject to a maximum of 1000000.

Criticisms

Scholars suggest India's rigid labour laws and excessive regulations assumed to protect the labour are the cause of slow employment growth in high paying, organised sector. India's labour-related acts and regulations have led to labour-market rigidity. This encourages shadow economy for entrepreneurs, an economy that prefers to employ informal labour to avoid the complicated

and opaque laws. In particular, Indian labour legislation such as the Industrial Disputes Act of 1947 added rigid labour laws and one sided trade union laws. Although the Act does not prohibit layoffs and retrenchments, it does require entrepreneurs and companies to get the permission from government officials to fire an employee for absenteeism, retrench employees for economic reasons, or to close an economically nonviable company. This bureaucratic process can stretch into years, and the government officials have consistently and almost always denied such permission. As a result, the scholars argue that India's inflexible labour laws have created a strong disincentive to formally register new companies and hire additional workers in existing organised sector companies. Unlike China, Indian businesses have avoided substituting India's abundant labour for export or domestic opportunities, or use labour instead of expensive equipment for quality control or other operations. These are reasons for India's weak employment growth.

More recently, a few scholars have completed a comparative study between states of India with different labour regulations. They compared states of India who have amended labour legislations to grant more flexibility to employers, to those states in India that have made their labour laws even more rigid and complicated to comply with. These studies find that states with flexible labour laws have grown significantly faster. Flexible labour states have been able to take advantage of the export opportunities, and the per capita household income has risen much faster in states with flexible labour laws. States with rigid labour laws have led local entrepreneurs to prefer casual workers or contract workers with finite employment time period; in essence, more rigid and inflexible labour law states see increased informal employment.

A 2007 article in The Economist finds India to have the most restrictive labour laws in any major economy of the world. India's private sector, including its organised manufacturing sector, employs about 10 million Indians. Manufacturing firms need to obtain government permission to lay off workers from factories, and this permission is usually denied if they have more than 100 staff. This partly explains why most Indian firms are small: 87 percent of employment in India's organised manufacturing sector is in firms with fewer than ten employees, compared with only 5 percent in China. Small Indian firms cannot reap economies of scale or exploit the latest technology, and so suffer from lower productivity than if they scaled up, employed more people and were much bigger companies. This cripples Indian firms ability to rapidly expand or adjust

with changes in global economy, both during early opportunity phase and during economic change.

One exception is white collar jobs, where companies have stronger lobbies and employees are not unionised, so they have managed to operate freely with a much larger workforce and have been able to lay off a significant portion of their workforce without contravening labour laws. In almost all cases white collar employees are forced to resign under threat of negative recommendations and black-listing with industry associations.

Djankov and Ramalho have reviewed a number of labour studies on developing countries including India. They find, consistent with above criticisms, that countries with rigid employment laws have larger unorganised sectors and higher unemployment, especially among young workers. They also report the rigid, inflexible labour laws are strongly related to low per capita income. International comparison of Indian labour laws

The table below contrasts the labour laws of India to those of China and United States, as of 2011.

Indian labour law

Indian labour law refers to laws regulating employment in India. There are over fifty national laws and many more state-level laws.

Traditionally Indian governments at federal and state level have sought to ensure a high degree of protection for workers (allegedly). For instance, a permanent worker can be terminated only for proven misconduct or for habitual absence.

Collective labour law

The Industrial Disputes Act (1947) requires companies employing more than 100 workers to seek government approval before they can fire employees or close down. In practice, permissions for firing

1) employees are seldom granted.

2) Trade Unions Act 1926

3) Provisions of the Factories Act, 1948

Individual labour law

All India Organisation of Employers points out that there are more than 55 central labour laws and over 100 state labour laws.

1) The Contract Labour Act (1970) aims at regulating employment of contract labour so as to place it at par with labour employed directly. Women are now permitted to work night shifts too (10pm to 6am).

2) Minimum Wages Act 1948

3) Weekly Holidays Act 1942

4) Beedi and Cigar Workers Act 1966

5) The Payment of Wages Act, 1936

6) The Workmen's Compensation Act, 1923

7) The Factories Act, 1948

8) The EPF Act

9) The Bonus Act

10) The ESI Act

CHAPTER 8

Economic Trends and Issues

In the revised 2007 figures before the global financial crisis, based on increased and sustaining growth, more inflows into foreign direct investment, Goldman Sachs predicted that "from 2007 to 2020, India's GDP per capita in US$ terms will quadruple", and that the Indian economy will surpass the United States (in US$) by 2043. In spite of the high growth rate, the report stated that India would continue to remain a low-income country for decades to come but could be a "motor for the world economy" if it fulfills its growth potential. World growth has since slowed substantially.

According to the official estimates, Indian economy was expected to grow at 7.6% (+/- 0.25%) in the fiscal year 2012–2013. However, leading financial organisations and economic think-tanks expect Indian economy to grow slower than official projections. In the end, India ended up growing 5% during the 2012–2013 fiscal year.

A media report in early October 2013 stated that five major Indian IT (information technology) companies have established offices in Guadalajara, Mexico, while several other Indian IT companies continue to explore the option of expanding to Mexico. Due to the competitiveness in the Indian IT sector, companies are expanding internationally and Mexico offers an affordable opportunity for Indian companies to better position themselves to enter the United States market. The trend emerged after 2006 and the Mexican government also offers incentives to foreign companies.

Agriculture

Slow agricultural growth is a concern for policymakers as some two-thirds of India's people depend on rural employment for a living. Current agricultural practices are neither economically nor environmentally sustainable and India's yields for many agricultural commodities are low. Poorly maintained irrigation systems and almost universal lack of good extension services are among the factors responsible. Farmers' access to markets is hampered by poor roads, rudimentary market infrastructure, and excessive regulation.

— World Bank: "India Country Overview 2008"

Agriculture is an important part of Indian economy. In 2008, a New York Times article claimed, with the right technology and policies, India could contribute to feeding not just itself but the world. However, agricultural output of India lags far behind its potential. The low productivity in India is a result of several factors. According to the World Bank, India's large agricultural subsidies are hampering productivity-enhancing investment. While overregulation of agriculture has increased costs, price risks and uncertainty, governmental intervention in labour, land, and credit markets are hurting the market. Infrastructure such as rural roads, electricity, ports, food storage, retail markets and services are inadequate. Further, the average size of land holdings is very small, with 70% of holdings being less than one hectare in size. The partial failure of land reforms in many states, exacerbated by poorly maintained or non-existent land records, has resulted in sharecropping with cultivators lacking ownership rights, and consequently low productivity of labour. Adoption of modern agricultural practices and use of technology is inadequate, hampered by ignorance of such practices, high costs, illiteracy, slow progress in implementing land reforms, inadequate or inefficient finance and marketing services for farm produce and impracticality in the case of small land holdings. The allocation of water is inefficient, unsustainable and inequitable. The irrigation infrastructure is deteriorating. Irrigation facilities are inadequate, as revealed by the fact that only 39% of the total cultivable land was irrigated as of 2010, resulting in farmers still being dependent on rainfall, specifically the monsoon season, which is often inconsistent and unevenly distributed across the country.

Corruption

Corruption has been one of the pervasive problems affecting India. A 2005 study by Transparency International (TI) found that more than half of those surveyed had firsthand experience of paying bribe or peddling influence to get a job done in a public office in the previous year. A follow-on 2008 TI study found this rate to be 40 percent. In 2011, Transparency International ranked India at 95th place amongst 183 countries in perceived levels of public sector corruption.

In 1996, red tape, bureaucracy and the Licence Raj were suggested as a cause for the institutionalised corruption and inefficiency. More recent reports suggest the causes of corruption in India include excessive regulations and approval requirements, mandated spending programs,

monopoly of certain goods and service providers by government controlled institutions, bureaucracy with discretionary powers, and lack of transparent laws and processes.

The Right to Information Act (2005) which requires government officials to furnish information requested by citizens or face punitive action, computerisation of services, and various central and state government acts that established vigilance commissions, have considerably reduced corruption and opened up avenues to redress grievances.

The current government has concluded that most spending fails to reach its intended recipients. A large, cumbersome and tumor-like bureaucracy sponges up or siphons off spending budgets. India's absence rates are one of the worst in the world; one study found that 25% of public sector teachers and 40% of public sector medical workers could not be found at the workplace.

Corruption is also endemic in the Indian technology and scientific development industries. CSIR has been flagged in ongoing efforts to root out corruption in India. Prime minister Manmohan Singh spoke at the 99th Indian Science Congress and commented on the state of the sciences in India, after an advisory council informed him there were problems with "the overall environment for innovation and creative work" and a 'warlike' approach was needed. There are many issues facing Indian scientists, with some – such as MIT systems scientist VA Shiva Ayyadurai – calling for transparency, a meritocratic system, and an overhaul of the bureaucratic agencies that oversee science and technology.

The Indian economy has an underground economy, with an alleged 2006 report by the Swiss Bankers Association suggesting India topped the worldwide list for black money with almost $1,456 billion stashed in Swiss banks. This amounts to 13 times the country's total external debt. These allegations have been denied by Swiss Banking Association. James Nason, the Head of International Communications for Swiss Banking Association, suggests "The (black money) figures were rapidly picked up in the Indian media and in Indian opposition circles, and circulated as gospel truth. However, this story was a complete fabrication. The Swiss Bankers Association never published such a report. Anyone claiming to have such figures (for India) should be forced to identify their source and explain the methodology used to produce them."

Education

India has made huge progress in terms of increasing primary education attendance rate and expanding literacy to approximately three-fourths of the population. India's literacy rate had grown from 52.2% in 1991 to 74.04% in 2011. The right to education at elementary level has been made one of the fundamental rights under the eighty-sixth Amendment of 2002, and legislation has been enacted to further the objective of providing free education to all children. However, the literacy rate of 74% is still lower than the worldwide average and the country suffers from a high dropout rate. Further, there exists a severe disparity in literacy rates and educational opportunities between males and females, urban and rural areas, and among different social groups.

Economic disparities

India continues to grow at a rapid pace, although the government recently reduced its annual GDP growth projection from 9% to 8% for the current fiscal year ending March 2012. The slowdown is marked by a sharp drop in investment growth resulting from political uncertainties, a tightening of macroeconomic policies aimed at addressing a high fiscal deficit and high inflation (going well beyond food and fuel prices), and from renewed concerns about the European and US economies. Although the Government was quite successful in cushioning the impact of the global financial crisis on India, it is now clear that a number of MDG targets will only be met under the Twelfth Five Year Plan (2012–17).

— World Bank: India Country Overview 2011

A critical problem facing India's economy is the sharp and growing regional variations among India's different states and territories in terms of poverty, availability of infrastructure and socio-economic development. Six low-income states – Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha and Uttar Pradesh – are home to more than one-third of India's population. Severe disparities exist among states in terms of income, literacy rates, life expectancy and living conditions.

The five-year plans, especially in the pre-liberalisation era, attempted to reduce regional disparities by encouraging industrial development in the interior regions and distributing industries across states, but the results have not been very encouraging since these measures in fact increased inefficiency and hampered effective industrial growth. After liberalisation, the

more advanced states have been better placed to benefit from them, with well-developed infrastructure and an educated and skilled workforce, which attract the manufacturing and service sectors. The governments of backward regions are trying to reduce disparities by offering tax holidays and cheap land, and focusing more on sectors like tourism which, although being geographically and historically determined, can become a source of growth and develops faster than other sectors. In fact, the economists fail to realize that ultimately the problem of equitable growth or inclusive growth is intricately related to the problems of good governance and transparency.

In 2011 Engineering Jobs in India have been showing signs of steady growth.

Critics of the neoliberal turn to policymaking in India, and the world in general, since the mid-1980s have pointed out that the growth process under a neoliberal regime is inherently anti-poor. Most of the dividends of economic growth is cornered by the already well off. In parallel with an inegalitarian growth process, neoliberalism also whittles down whatever welfare State measures might have been in place before its adoption. Inegalitarian growth and erosion of State assisted welfare provisioning increases socio-economic inequality drastically. Drawing on some recent research, this article has provided empirical evidence in support of such a view.

Two comparison groups provide a powerful and disturbing insight into India's growth process. First, there are many countries which have grown at rates very similar to India's but which have managed to register marked declines in socio-economic inequalities. In stark contrast to this, India has witnessed an increase in socio-economic inequality since 1990. Second, in comparison to its close neighbours, with whom India has many geographical, climactic, cultural and social commonalities, India emerges as the worst performer among the South Asian countries.

The growth process currently underway in India is inherently biased against the poor, the marginalized and underprivileged. If economic growth is to lead to substantial improvements in the living standards (measured by indicators of well being like life expectancy, literacy, infant mortality) of the vast majority of the world's population, a radically different socio-economic paradigm must be put in place of the currently dominant neoliberal one.

Life Insurance

There are 23 private-sector firms providing life insurance, who have commenced operations over the period 2000–10. The industry which reported in annual growth rate of 19.8% during the period 1996–97 to 2000–01 has, post opening up the sector reported in an annual growth rate of 23.4% during 2001–02 to 2010–11. There has been an average growth of 34% in the first premium in the insurance sector between 2001–02 and 2010–11. The life insurers underwrote new business of Rs 1,26,381 crore during financial year 2010–11 as against Rs 1,09,894 crore during the year 2009–10, recording a growth of 15%. Of the new business premium underwritten, LIC accounted Rs 87012.65 crore (68.9% market share). The market share of these insurers was 65.1% and 34.9% respectively in the corresponding period 2009–10.

Non-Life Insurance

The industry which reported a growth rate of around 10 percent during the period 1996–97 to 2000–10 has, post opening up the sector, reported average annual growth of 15.85% over the period 2001–02 to 2010–11. In addition, the specialized insurers Export Credit Guarantee Corporation and Agriculture Insurance Company (AIC) are offering credit guarantee and corp insurance respectively. AIC, which has initially offering coverage under the National Agriculture Insurance Company (NAIS), has now started providing crop insurance cover on commercial line as well. It has introduced several innovative products such as weather insurance and specific crop related products. The premium underwritten by the non life insurers during 2010–11 was Rs 42,576 crore as against Rs 34,620 crore in 2009–10. The growth was satisfactory, particularly in the view of the across the broad cuts in the tariff rates. The private insurers underwrote premium of Rs 17,424 crore as against rs Rs 13,977 crore in 2009–10. The public sector insurers on the other hand, underwrote a premium of Rs 25,151.8 in 2010–11 as against Rs 20,643.5 crore in 2009–10, i.e. a growth of 21.8% as against 14.5% in 2009–10.

Insurance Penetration

The growth of insurance sector is internationally measured based standard of insurance penetration. Insurance Penetration is defined as the ratio of premium underwritten in a given year to Gross Domestic Product. Likewise, insurance density is another well recognized benchmark and is defined as the ratio of premium underwritten in a given year to total population (measured in US dollars for convenience of comparison). The Indian insurance business has in the past

remained under developed with low levels of insurance penetration. Post liberalization=, sector has succeeded in raising the levels of insurance penetration from 2.3 (life 1.8 and non life 0.7) in 2000 to 5.1 (life 4.4 and non life 0.7) in 2010.

Security Markets

The Indian Securities Market dates back to the 18th century when the securities of the East India Company were traded in Mumbai and Kolkata. However, orderly growth of the capital market began with setting up of the Stock Exchange, Mumbai in July 1875 and Ahmedabad Stock exchange in 1894 and 22 other exchange in various cities over the years.

During the financial year 2011–12 (up to 31 December 2011) resource mobilization through primary market witnessed a sharp decline over the year 2010–11. The cumulative amount mobilized as on 31 December 2011 through equity public issues stood at Rs 9683 crore as compared to 48564 crore in 2011. During 2011–12 30 new companies were listed at the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) amounting to Rs 5043 crore as against 53 companies amounting to Rs 3559 crore listed in 2011–12. The mean IPO size of the year 2011–12 was Rs 168 crore as compared to Rs 671 crore. in 2010–11. Further, only Rs 4791 crore was mobilized through debt issue as compared to Rs 9451 crore in 2010–11. The amount of capital mobilized through private placement in corporate debt in 2011–12 (April – December) was Rs 188530 crore as compared to Rs 218785 crore in 2010–11.

CHAPTER 9

India's Economic Policies

In 1947, the average annual income in India was US$619, compared with US$439 for China, US$770 for South Korea, and US$936 for Taiwan. By 1999, the numbers were US$1,818 India; US$3,259 China; US$13,317 South Korea ; and US$15,720 Taiwan, respectively. (Numbers are in 1990 international Maddison dollars.) In other words, the average income in India was not much different from South Korea in 1947, but South Korea became a developed country by the 2000s. At the same time, India was left as one of the world's poorer countries. India had to somehow manage and facilitate its resources and planning in such a way that the poverty ratio could be reduced.

License Raj refers to the elaborate licenses, regulations and the accompanying red tape that were required to set up and run a business in India between 1947 and 1990. The License Raj was a result of India's decision to have a planned economy, where all aspects of the economy are controlled by the state and licenses were given to a select few. Corruption flourished under this system.

The labyrinthine bureaucracy often led to absurd restrictions – up to 80 agencies had to be satisfied before a firm could be granted a licence to produce and the state would decide what was produced, how much, at what price and what sources of capital were used.

—BBC

India had started out in the 1950s with high growth rates, openness to trade and investment, a promotional state, social expenditure awareness and macro stability but ended the 1980s with with low growth rates, closure to trade and investment, a license-obsessed, restrictive state (License Raj), inability to sustain social expenditures and macro instability, indeed economic crisis.

Liberalisation policies and their effects

Other points of view hold that the economic reforms initiated in the early 1990s are responsible for the collapse of rural economies and the agrarian crisis currently underway. As journalist and the Rural Affairs editor for The Hindu, P Sainath, describes in his reports on the rural economy

in India, the level of inequality has risen to extraordinary levels, when at the same time, hunger in India has reached its highest level in decades. He also points out that rural economies across India have collapsed, or are on the verge of collapse due to the neo-liberal policies of the government of India since the 1990s. The human cost of the "liberalisation" has been very high. The huge wave of farm suicides in Indian rural population from 1997 to 2007 totalled close to 200,000, according to official statistics. That number remains disputed, with some saying the true number is much higher. Commentators have faulted the policies pursued by the government which, according to Sainath, resulted in a very high portion of rural households getting into the debt cycle, resulting in a very high number of farm suicides. As professor Utsa Patnaik, India's top economist on agriculture, has pointed out, the average poor family in 2007 has about 100 kg less food per year than it did in 1997.

Government policies encouraging farmers to switch to cash crops, in place of traditional food crops, has resulted in an extraordinary increase in farm input costs, while market forces determined the price of the cash crop. Sainath points out that a disproportionately large number of affected farm suicides have occurred with cash crops, because with food crops such as rice, even if the price falls, there is food left to survive on. He points out that inequality has reached one of the highest rates India has ever seen. In a report by Chetan Ahya, executive director at Morgan Stanley, it is pointed out that there has been a wealth increase of close to US$1 trillion in the time frame of 2003–2007 in the Indian stock market, while only 4%–7% of the Indian population hold any equity. During the time when public investment in agriculture shrank to 2% of the GDP, the nation suffered the worst agrarian crisis in decades, the same time as India became the nation with the second highest number of dollar billionaires. Sainath argues that

The per capita food availability has declined every five years without exception from 1992–2010 whereas from 1972–1991 it had risen every five-year period without exception.

Farm incomes have collapsed. Hunger has grown very fast. Public investment in agriculture shrank to nothing a long time ago. Employment has collapsed. Non-farm employment has stagnated. (Only the National Rural Employment Guarantee Act has brought some limited relief in recent times.) Millions move towards towns and cities where, too, there are few jobs to be found.

In one estimate, over 85 per cent of rural households are either landless, sub-marginal, marginal or small farmers. Nothing has happened in 15 years that has changed that situation for the better. Much has happened to make it a lot worse.

Those who have taken their lives were deep in debt—peasant households in debt doubled in the first decade of the neoliberal "economic reforms," from 26 per cent of farm households to 48.6 per cent. Meanwhile, all along, India kept reducing investment in agriculture (standard neoliberal procedure). Life was being made more and more impossible for small farmers.

As of 2006, the government spends less than 0.2% of GDP on agriculture and less than 3% of GDP on education. However, some government schemes such as the mid-day meal scheme, and the NREGA have been partially successful in providing a lifeline for the rural economy and curbing the further rise of poverty.

Reduction in poverty

Despite all the causes, India currently adds 40 million people to its middle class every year. Analysts such as the founder of Forecasting International, Marvin J. Cetron, writes that an estimated 300 million Indians now belong to the middle class; one-third of them having emerged from poverty in the last ten years. However, this has to be seen in perspective as the population of India has increased by 370 million from 1991 and 190 million from 2001 so the absolute number of poor has increased.

Despite government initiatives, corporate social responsibility (CSR) remains low on the agenda of corporate sector. Only 10% of funding comes from individuals and corporates, and "a large part of CSR initiatives are artfully masqueraded and make it back to the balancesheet." The widening income gap between the rich and the poor over the years has raised fears of a social backlash.

Efforts to alleviate poverty

Since the early 1950s, govt has initiated, sustained, and refined various planning schemes to help the poor attain self-sufficiency in food production. Probably the most important initiative has been the supply of basic commodities, particularly food at controlled prices, available throughout the country as the poor spend about 80% of their income on food. The schemes have however

not been very successful because the rate of poverty reduction lags behind the rapid population growth rate.

Outlook for poverty alleviation

Eradication of poverty in India is generally only considered to be a long-term goal. Poverty alleviation is expected to make better progress in the next 50 years than in the past, as a trickle-down effect of the growing middle class. Increasing stress on education, reservation of seats in government jobs and the increasing empowerment of women and the economically weaker sections of society are also expected to contribute to the alleviation of poverty. It is incorrect to say that all poverty reduction programmes have failed. The growth of the middle class (which was virtually non-existent when India became a free nation in August 1947) indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth is not at all even.

Controversy over extent of poverty reduction

The definition of poverty in India has been called into question by the UN World Food Programme. In its report on global hunger index, it questioned the government of India's definition of poverty saying:

The fact that calorie deprivation is increasing during a period when the proportion of rural population below the poverty line is said to be declining rapidly, highlights the increasing disconnect between official poverty estimates and calorie deprivation.

While total overall poverty in India has declined, the extent of poverty reduction is often debated. While there is a consensus that there has not been an increase in poverty between 1993–94 and 2004–05, the picture is not so clear if one considers other non-pecuniary dimensions (such as health, education, crime and access to infrastructure). With the rapid economic growth that India is experiencing, it is likely that a significant fraction of the rural population will continue to migrate toward cities, making the issue of urban poverty more significant in the long run.

Some, like journalist P Sainath, hold the view that while absolute poverty may not have increased, India remains at an abysmal rank in the UN Human Development Index. India is

positioned at 136th place in the 2012 UN HDI index. It is the lowest rank for the country in over 10 years. In 1992, India was at 122nd place in the same index. It can even be argued that the situation has become worse on critical indicators of overall well-being such as the number of people who are undernourished (India has the highest number of malnourished people, at 230 million, and is 94th of 119 in the world hunger index), and the number of malnourished children (43% of India's children under 5 are underweight (BMI<18.5), the highest in the world) as of 2008.

A 2007 report by the state-run National Commission for Enterprises in the Unorganised Sector (NCEUS) found that 77% of Indians, or 836 million people, lived on less than 20 per day (USD 0.50 nominal, USD 2.0 in PPP), with most working in "informal labour sector with no job or social security, living in abject poverty." However, a 2010 report from the UN disputes this, finding that the number of people living on US$1.25 a day is expected to go down from 435 million or 51.3 percent in 1990 to 295 million or 23.6 percent by 2015 and 268 million or 20.3 percent by 2020.

Persistence of malnutrition among children

According to the New York Times, it is estimated that about 55% of the children in India suffer from malnutrition. The World Bank, citing estimates made by the World Health Organisation, states that "About 49 percent of the world's underweight children, 34 percent of the world's stunted children and 46 percent of the world's wasted children, live in India." The World Bank also noted that "while poverty is often the underlying cause of malnutrition in children, the superior economic growth experienced by South Asian countries compared to those in Sub-Saharan Africa, has not translated into superior nutritional status for the South Asian child."

A special commission to the Indian Supreme Court has noted that the child malnutrition rate in India is twice as great as in sub-Saharan Africa.

Data from the World Bank shows that the percentage of underweight children in sub-Saharan Africa is 24% while India has almost twice the amount at 47%. Out of the 47%, 50% were from rural areas, 38% from urban areas, 48.9% of the underweight are girls and 45.5% are boys.

Malnutrition is often associated with diseases like diarrhoea, malaria and measles due to the lack of access in health care, which is also linked to the problem of poverty. The United Nations had estimated that "2.1 million Indian children die before reaching the age of 5 every year – four every minute."

The Indian government came up with the Integrated Childhood Development Service (ICDS) in 1975 to combat the problem of malnutrition in the country. ICDS is the world's largest child development programme, but its effects on the problem in India are limited. This is because the programme failed to focus on children under 3, the group that should receive the most help from the ICDS; most growth retardation would have developed by the age of 2 and is mostly irreversible. With the lack of help, the chances that newborn babies are unable to develop fully would be higher.

The quality of ICDS centres varies from states to states and often the babies with the most serious problem of malnutrition have the lowest amount of help given. "Rajasthan, Uttar Pradesh, Bihar, Orissa and Madhya Pradesh, all rank in the bottom ten in terms of ICDS coverage." Despite the poor distribution of help, the ICDS is still considered to be efficient in improving the health of the children in the country. Statistics from UNICEF show that the mortality rate of children under 5 has improved from 118 per 1000 live births in 1990 to 66 in the year 2009.

However, malnutrition is still a problem for India; it has been found that "micronutrient deficiencies alone may cost India US$2.5 billion annually." Malnutrition can lead to children not being able to attend school or perform to their fullest potential, which in turn leads to a decrease in labour productivity, affecting India's economic growth as a whole.

Abuse

In 2013 it was reported that women were being coerced into sterilisation in an unhygienic medical environment, for a week's pay.

In the same year it has been claimed that the Indian poor are subject to clinical tests that would not be accepted elsewhere.

Slavery, and in particular child slavery and sex slavery, has been shown to exist in the poverty-stricken regions of India. An NGO has been formed specifically to free slaves in India, claiming that India has the largest concentration of slavery in the world.

A large number of Indian work migrants migrate from the poverty-stricken areas of India to other countries where they are employed in poor conditions and at low grade jobs—called 3D jobs: Dirty, Dangerous and Degrading—and in some cases are held in slavery conditions. A similar fate awaits migrants inside India itself.

CHAPTER 10
Sectors

Industry and services

Industry accounts for 26% of GDP and employs 22% of the total workforce. India is 11th in the world in terms of nominal factory output according to data compiled through CIA World Factbook figures. The Indian industrial sector underwent significant changes as a result of the economic liberalisation in India economic reforms of 1991, which removed import restrictions, brought in foreign competition, led to the privatisation of certain public sector industries, liberalised the FDI regime, improved infrastructure and led to an expansion in the production of fast moving consumer goods. Post-liberalisation, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, and relying on cheap labour and new technology. However, this has also reduced employment generation even by smaller manufacturers who earlier relied on relatively labour-intensive processes.

Textile

Textile manufacturing is the 2nd largest source of employment after agriculture and accounts for 20% of manufacturing output, providing employment to over 20 million people. A previous Indian Minister of Textiles Shankersinh Vaghela, has stated that the transformation of the textile industry from a declining to a rapidly developing one has become the biggest achievement of the central government. After freeing the industry in 2004–2005 from a number of limitations, primarily financial, the government gave a green light to massive investment inflows – both domestic and foreign. During the period from 2004 to 2008, total investment amounted to 27 billion dollars. By 2012, this figure was predicted to reach 38 billion and was expected to create an additional 17 million jobs. However, demand for Indian textiles in world markets continues to fall. Ludhiana produces 90% of woollens in India and is known as the Manchester of India. Tirupur has gained universal recognition as the leading source of hosiery, knitted garments, casual wear and sportswear. Considering the Rs 15,000,000,000 revenue from textile sales with an approximate of a nominal 20% net profit and with around 257,572 residents of the city, per capita income of Ichalkaranji is 116,472, among one of the highest per capita incomes in the country. Textile Development Cluster : To enhance and improve the infrastructure facilities of

the city, the Municipal Council along with Ichalkaranji Co-operative Industrial Estate, Laxmi Co-operative Industrial Estate, Parvati Industrial Estate and DKTE Textile and Engineering Institute have jointly come together and formed a Special Purpose Vehicle (SPV) company viz. Ichalkaranji Textile Development Cluster Limited (ITDC). The individual members will contribute to the extent of about 50% of the project cost and the balance amount would come in from the grant in aid from Department of Industrial Promotion and Policy, Government of India, under the Industrial Infrastructure up-gradation Scheme (IIUS).

Services

India is 13th in services output. The services sector provides employment to 27% of the work force and is growing quickly, with a growth rate of 7.5% in 1991–2000, up from 4.5% in 1951–80. It has the largest share in the GDP, accounting for 57% in 2012, up from 15% in 1950. Information technology and business process outsourcing are among the fastest growing sectors, having a cumulative growth rate of revenue 33.6% between 1997 and 1998 and 2002–03 and contributing to 25% of the country's total exports in 2007–08. The growth in the IT sector is attributed to increased specialisation, and an availability of a large pool of low cost, highly skilled, educated and fluent English-speaking workers, on the supply side, matched on the demand side by increased demand from foreign consumers interested in India's service exports, or those looking to outsource their operations. The share of the Indian IT industry in the country's GDP increased from 4.8% in 2005–06 to 7% in 2008. In 2009, seven Indian firms were listed among the top 15 technology outsourcing companies in the world.

Retail

Retail industry is one of the pillars of Indian economy and accounts for 14–15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail market in the world, with 1.2 billion people.

India's retailing industry essentially consists of the local mom and pop store, owner manned general stores, convenience stores, hand cart and pavement vendors, etc. Organised retail supermarkets account for 4% of the market as of 2008. Regulations prevent most foreign investment in retailing. In 2012 government permitted 51% FDI in multi brand retail and 100%

FDI in single brand retail. Moreover, over thirty regulations such as "signboard licences" and "anti-hoarding measures" may have to be complied before a store can open doors. There are taxes for moving goods from state to state, and even within states.

Tourism

Tourism in India is relatively undeveloped, but a high growth sector. It contributes 6.23% to the national GDP and 8.78% of the total employment. The majority of foreign tourists come from USA and UK. India's rich history and its cultural and geographical diversity make its international tourism appeal large and diverse. It presents heritage and cultural tourism along with medical, business and sports tourism. India has one of the largest and fastest growing medical tourism sectors.

Mining

Mining forms an important segment of the Indian economy, with the country producing 79 different minerals (excluding fuel and atomic resources) in 2009–10, including iron ore, manganese, mica, bauxite, chromite, limestone, asbestos, fluorite, gypsum, ochre, phosphorite and silica sand.

Agriculture

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 17% of the GDP in 2012, employed 51% of the total workforce, and despite a steady decline of its share in the GDP, is still the largest economic sector and a significant piece of the overall socio-economic development of India. Crop yield per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the Green Revolution in India. However, international comparisons reveal the average yield in India is generally 30% to 50% of the highest average yield in the world. Indian states Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Bihar, West Bengal, Gujarat and Maharashtra are key agricultural contributing states of India.

India receives an average annual rainfall of 1,208 millimetres (47.6 in) and a total annual precipitation of 4000 billion cubic metres, with the total utilisable water resources, including surface and groundwater, amounting to 1123 billion cubic metres. 546,820 square kilometres (211,130 sq mi) of the land area, or about 39% of the total cultivated area, is irrigated. India's inland water resources including rivers, canals, ponds and lakes and marine resources comprising the east and west coasts of the Indian ocean and other gulfs and bays provide employment to nearly six million people in the fisheries sector. In 2008, India had the world's third largest fishing industry.

India is the largest producer in the world of milk, jute and pulses, and also has the world's second largest cattle population with 175 million animals in 2008. It is the second largest producer of rice, wheat, sugarcane, cotton and groundnuts, as well as the second largest fruit and vegetable producer, accounting for 10.9% and 8.6% of the world fruit and vegetable production respectively. India is also the second largest producer and the largest consumer of silk in the world, producing 77,000 million tons in 2005.

Banking and finance

The Indian money market is classified into the organised sector, comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks, and the unorganised sector, which includes individual or family owned indigenous bankers or money lenders and non-banking financial companies. The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

Prime Minister Indira Gandhi nationalised 14 banks in 1969, followed by six others in 1980, and made it mandatory for banks to provide 40% of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfill their social and developmental goals. Since then, the number of bank branches has increased from 8,260 in 1969 to 72,170 in 2007 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total bank deposits increased from 59.1 billion (US$950 million) in 1970–71 to 38309.22 billion (US$610 billion) in 2008–09. Despite an increase of rural branches,

from 1,860 or 22% of the total number of branches in 1969 to 30,590 or 42% in 2007, only 32,270 out of 500,000 villages are covered by a scheduled bank.

India's gross domestic saving in 2006–07 as a percentage of GDP stood at a high 32.8%. More than half of personal savings are invested in physical assets such as land, houses, cattle, and gold. The public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks, like encouraging mergers, reducing government interference and increasing profitability and competitiveness, other reforms have opened up the banking and insurance sectors to private and foreign players.

Energy and power

As of 2010, India imported about 70% of its crude oil requirements. Shown here is an ONGC platform at Mumbai High in the Arabian Sea, one of the few sites of domestic production.

As of 2009, India is the fourth largest producer of electricity and oil products and the fourth largest importer of coal and crude-oil in the world. Coal and oil together account for 66% of the energy consumption of India.

India's oil reserves meet 25% of the country's domestic oil demand. As of 2009, India's total proven oil reserves stood at 775 million metric tonnes while gas reserves stood at 1074 billion cubic metres. Oil and natural gas fields are located offshore at Mumbai High, Krishna Godavari Basin and the Cauvery Delta, and onshore mainly in the states of Assam, Gujarat and Rajasthan. India is the fourth largest consumer of oil in the world and imported $82.1 billion worth of oil in the first three quarters of 2010, which had an adverse effect on its current account deficit. The petroleum industry in India mostly consists of public sector companies such as Oil and Natural Gas Corporation (ONGC), Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL) and Indian Oil Corporation Limited (IOCL). There are some major private Indian companies in the oil sector such as Reliance Industries Limited (RIL) which operates the world's largest oil refining complex.

As of December 2011, India had an installed power generation capacity of 185.5 Giga Watts(GW), of which thermal power contributed 65.87%, hydroelectricity 20.75%, other sources of renewable energy 10.80%, and nuclear power 2.56%. India meets most of its domestic energy demand through its 106 billion tonnes of coal reserves. India is also rich in certain alternative sources of energy with significant future potential such as solar, wind and biofuels (jatropha, sugarcane). India's huge thorium reserves – about 25% of world's reserves – are expected to fuel the country's ambitious nuclear energy program in the long-run. India's dwindling uranium reserves stagnated the growth of nuclear energy in the country for many years. However, the Indo-US nuclear deal has paved the way for India to import uranium from other countries.

Infrastructure

India has the world's third largest road network, covering more than 4.3 million kilometers and carrying 60% of freight and 87% of passenger traffic. Indian Railways is the fourth largest rail network in the world, with a track length of 114,500 kilometers. India has 13 major ports, handling a cargo volume of 850 million tonnes in 2010.

India has a national teledensity rate of 74.15% with 926.53 million telephone subscribers, two-thirds of them in urban areas, but Internet use is rare, with around 13.3 million broadband lines in India in December 2011. However, this is growing and is expected to boom following the expansion of 3G and WiMAX services.

CHAPTER 11

Great Recession

This article is about the global economic downturn during the early 21st century. For background on financial market events dating from 2007, see financial crisis of 2007–08.

The Great Recession is an ongoing marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008. The initial phase of the economic crisis started with a financial liquidity crisis, dated to have started on 9 August 2007, at the interbank lending market when central banks had to step in with liquidity lending to the banking market. This was a response to a situation where BNP Paribas temporarily had to block money withdrawals from three hedge funds - citing a "complete evaporation of liquidity". The bursting of the U.S. housing bubble, where the median price for real estate home sales in US started to decline after its peak in July 2006, caused the values of securities tied to U.S. real estate pricing to plummet, damaging financial institutions globally and creating an interbank credit crisis. The first sign of an interbank credit crisis arrived in March 2007, when the United States' subprime mortgage industry collapsed due to higher-than-expected home foreclosure rates, with more than 25 subprime lenders declaring bankruptcy, announcing significant losses, or putting themselves up for sale.

The Great Recession began as a national recession in United States in December 2007, but only met the IMF criteria for being a global recession, requiring a decline in annual real World GDP per‑capita (Purchasing Power Parity weighted), in the single calendar year 2009. Despite the fact that quarterly data are being utilized as recession definition criteria by all G20 members, representing 85% of the World GDP, IMF has decided -because of the absence of a complete data set- not to declare/measure global recessions according to quarterly GDP data. The seasonally adjusted PPP‑weighted real GDP for the G20‑zone, however is a good indicator for the World GDP, and it was measured to have suffered a direct quarter on quarter decline during the three quarters from Q3‑2008 until Q1‑2009, which more accurately mark when the recession took place at the global level. The exact start and end-point for the recession at the national level, however greatly varied from country to country, and some countries did not experience any recession at all.

Many countries in Europe had a second recession, starting on average about three years after the first one. Some (Germany, Switzerland, Sweden) did not have a second recession. Most countries outside Europe did not have a second recession.

The recession affected the entire world economy, with greater detriment to some countries than others, but overall to a degree which made it the worst global recession since World War II. It was a major global recession characterised by various systemic imbalances, and was sparked by the outbreak of the U.S. subprime mortgage crisis and financial crisis of 2007–08. The economic side effects of the European sovereign debt crisis, austerity, high levels of household debt, trade imbalances, high unemployment, and limited prospects for global growth in 2014, continue to provide obstacles for many countries to achieve a full recovery from the recession.

Overview

According to the U.S. National Bureau of Economic Research (the official arbiter of U.S. recessions) the US recession began in the United States in December 2007 and ended in June 2009, and thus spanned over 18 months. US mortgage-backed securities, which had risks that were hard to assess, were marketed around the world. A more broad based credit boom fed a global speculative bubble in real estate and equities, which served to reinforce the risky lending practices.

The bad financial situation was made more difficult by a sharp increase in oil and food prices. The emergence of sub-prime loan losses in 2007 began the crisis and exposed other risky loans and over-inflated asset prices. With loan losses mounting and the fall of Lehman Brothers on 15 September 2008, a major panic broke out on the inter-bank loan market. As share and housing prices declined, many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance.

If adhering to the European definition for existence of a global recession, this will appear when the World's seasonally adjusted real GDP contract quarter on quarter, through two consecutive quarters. By applying this definition on data from the 52 countries publishing these quarterly figures and representing 90% of the World GDP, it can be concluded the global recession began in Q3-2008 and ended in Q1-2009, and thus lasted for three consecutive quarters.

The global recession resulted in a sharp drop in international trade, rising unemployment and slumping commodity prices. Several economists predicted that recovery might not appear until 2011 and that the recession would be the worst since the Great Depression of the 1930s. Paul Krugman, who won the Nobel Memorial Prize in Economics, once commented on this as seemingly the beginning of "a second Great Depression." The conditions leading up to the crisis, characterised by an exorbitant rise in asset prices and associated boom in economic demand, are considered a result of the extended period of easily available credit and inadequate regulation and oversight.

The recession has renewed interest in Keynesian economic ideas on how to combat recessionary conditions. Fiscal and monetary policies have been significantly eased to stem the recession and financial risks. Economists advise that the stimulus should be withdrawn as soon as the economies recover enough to "chart a path to sustainable growth".

According to a study of 54 countries, there has been an increase in suicide deaths as a result of the recession. The study cites that there were an estimated 5,000 additional deaths resulting from suicide in the year 2009 alone.

Causes

The great asset bubble: * Central banks' gold reserves – $0.845 tn. * M0 (paper money) – – $3.9 tn. * traditional (fractional reserve) banking assets – $39 tn. * shadow banking assets – $62 tn. * other assets – $290 tn. * Bail-out money (early 2009) – $1.9 tn.

Overview

The immediate or proximate cause of the crisis in 2008 was the failure or risk of failure at major financial institutions globally, starting with the rescue of investment bank Bear Stearns in March 2008 and the failure of Lehman Brothers in September 2008. Many of these institutions had invested heavily in risky securities that lost much or all of their value when U.S. and European housing bubbles began to deflate during the 2007-2009 period. Further, many institutions had become dependent on short-term (overnight) funding markets subject to disruption.

The origin of these housing bubbles involved two major factors: 1) low interest rates in the U.S. and Europe following the 2000-2001 U.S. recession; and 2) significant growth in savings

available from developing nations due to ongoing trade imbalances. These factors drove a large increase in demand for high-yield investments. Large investment banks connected the housing markets to this large supply of savings via innovative new securities, fueling housing bubbles in the U.S. and Europe.

Many institutions lowered credit standards to continue feeding the global demand for mortgage securities, generating huge profits while passing the risk to investors. However, while the bubbles developed, household debt levels rose sharply after the year 2000 globally. Households became dependent on being able to refinance their mortgages. Further, U.S. households often had adjustable rate mortgages, which had lower initial interest rates and payments that later rose. When global credit markets essentially stopped funding mortgage-related investments in the 2007-2008 period, U.S. homeowners were no longer able to refinance and defaulted in record numbers, leading to the collapse of securities backed by these mortgages that now pervaded the system.

The failure rates of subprime mortgages were the first symptom of a credit boom turned to bust and of a real estate shock. But large default rates on subprime mortgages cannot account for the severity of the crisis. Rather, low-quality mortgages acted as an accelerant to the fire that spread through the entire financial system. The latter had become fragile as a result of several factors that are unique to this crisis: the transfer of assets from the balance sheets of banks to the markets, the creation of complex and opaque assets, the failure of ratings agencies to properly assess the risk of such assets, and the application of fair value accounting. To these novel factors, one must add the now standard failure of regulators and supervisors in spotting and correcting the emerging weaknesses.

Panel reports

The majority report of the U.S. Financial Crisis Inquiry Commission, supported by six Democrat appointees, reported its findings in January 2011. It concluded that "the crisis was avoidable and was caused by: Widespread failures in financial regulation, including the Federal Reserve's failure to stem the tide of toxic mortgages; Dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk; An explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system

on a collision course with crisis; Key policy makers ill prepared for the crisis, lacking a full understanding of the financial system they oversaw; and systemic breaches in accountability and ethics at all levels.“

There were two Republican dissenting reports. One of them, signed by three Republican appointees, concluded that there were multiple causes, of which government affordable housing policies was one. In his separate dissent to the majority and minority opinions of the FCIC, Commissioner Peter J. Wallison of the American Enterprise Institute (AEI) primarily blamed U.S. housing policy, including the actions of Fannie & Freddie, for the crisis. He wrote: "When the bubble began to deflate in mid-2007, the low quality and high risk loans engendered by government policies failed in unprecedented numbers. The effect of these defaults was exacerbated by the fact that few if any investors—including housing market analysts—understood at the time that Fannie Mae and Freddie Mac had been acquiring large numbers of subprime and other high risk loans in order to meet HUD’s affordable housing goals." His dissent relied heavily on the research of fellow AEI member Edward Pinto, the former Chief Credit Officer of Fannie Mae. Pinto estimated that by early 2008 there were 27 million higher-risk, "non-traditional" mortgages (defined as subprime and Alt-A) outstanding valued at $4.6 trillion. Of these, Fannie & Freddie held or guaranteed 12 million mortgages valued at $1.8 trillion. Government entities held or guaranteed 19.2 million or $2.7 trillion of such mortgages total.

An even larger estimate of GSE substandard loans was produced in late 2011, when the Securities and Exchange Commission filed fraud charges against 6 former GSE executives. Significantly, the SEC alleged (and still maintains) that Fannie Mae and Freddie Mac reported as subprime and substandard less than 10 percent of their actual subprime and substandard loans. In other words, the substandard loans held in the GSE portfolios may have been 10 times greater than originally reported. According to Wallison, that would make the SEC's estimate of GSE substandard loans higher than Edward Pinto's estimate.

In its "Declaration of the Summit on Financial Markets and the World Economy," dated 15 November 2008, leaders of the Group of 20 cited the following causes:

During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions.

Trade imbalances and debt bubbles

The Economist wrote in July 2012 that the inflow of investment dollars required to fund the U.S. trade deficit was a major cause of the housing bubble and financial crisis: "The trade deficit, less than 1% of GDP in the early 1990s, hit 6% in 2006. That deficit was financed by inflows of foreign savings, in particular from East Asia and the Middle East. Much of that money went into dodgy mortgages to buy overvalued houses, and the financial crisis was the result."

In May 2008, NPR explained in their Peabody Award winning program "The Giant Pool of Money" that a vast inflow of savings from developing nations flowed into the mortgage market, driving the U.S. housing bubble. This pool of fixed income savings increased from around $35 trillion in 2000 to about $70 trillion by 2008. NPR explained this money came from various sources, "but the main headline is that all sorts of poor countries became kind of rich, making things like TVs and selling us oil. China, India, Abu Dhabi, Saudi Arabia made a lot of money and banked it."

Describing the crisis in Europe, Paul Krugman wrote in February 2012 that: "What we're basically looking at, then, is a balance of payments problem, in which capital flooded south after the creation of the euro, leading to overvaluation in southern Europe."

Monetary policy

Another narrative about the origin has been focused on the respective parts played by the public monetary policy (in the US notably) and by the practices of private financial institutions. In the U.S., mortgage funding was unusually decentralised, opaque, and competitive, and it is believed

that competition between lenders for revenue and market share contributed to declining underwriting standards and risky lending.

While Greenspan's role as Chairman of the Federal Reserve has been widely discussed (the main point of controversy remains the lowering of the Federal funds rate to 1% for more than a year which, according to Austrian theorists, allowed huge amounts of "easy" credit-based money to be injected into the financial system and thus create an unsustainable economic boom), there is also the argument that Greenspan's actions in the years 2002–2004 were actually motivated by the need to take the U.S. economy out of the early 2000s recession caused by the bursting of the dot-com bubble—although by doing so he did not help avert the crisis, but only postpone it.

High private debt levels

Another narrative focuses on high levels of private debt in the US economy. USA household debt as a percentage of annual disposable personal income was 127% at the end of 2007, versus 77% in 1990. Faced with increasing mortgage payments as their adjustable rate mortgage payments increased, households began to default in record numbers, rendering mortgage-backed securities worthless. High private debt levels also impact growth by making recessions deeper and the following recovery weaker. Robert Reich claims the amount of debt in the US economy can be traced to economic inequality, assuming that middle-class wages remained stagnant while wealth concentrated at the top, and households "pull equity from their homes and overload on debt to maintain living standards."

The International Monetary Fund (IMF) reported in April 2012: "Household debt soared in the years leading up to the Great Recession. In advanced economies, during the five years preceding 2007, the ratio of household debt to income rose by an average of 39 percentage points, to 138 percent. In Denmark, Iceland, Ireland, the Netherlands, and Norway, debt peaked at more than 200 percent of household income. A surge in household debt to historic highs also occurred in emerging economies such as Estonia, Hungary, Latvia, and Lithuania. The concurrent boom in both house prices and the stock market meant that household debt relative to assets held broadly stable, which masked households’ growing exposure to a sharp fall in asset prices. When house prices declined, ushering in the global financial crisis, many households saw their wealth shrink relative to their debt, and, with less income and more unemployment, found it harder to meet

mortgage payments. By the end of 2011, real house prices had fallen from their peak by about 41% in Ireland, 29% in Iceland, 23% in Spain and the United States, and 21% in Denmark. Household defaults, underwater mortgages (where the loan balance exceeds the house value), foreclosures, and fire sales are now endemic to a number of economies. Household deleveraging by paying off debts or defaulting on them has begun in some countries. It has been most pronounced in the United States, where about two-thirds of the debt reduction reflects defaults."

Pre-recession economic imbalances

The onset of the economic crisis took most people by surprise. A 2009 paper identifies twelve economists and commentators who, between 2000 and 2006, predicted a recession based on the collapse of the then-booming housing market in the United States: Dean Baker, Wynne Godley, Fred Harrison, Michael Hudson, Eric Janszen, Steve Keen, Jakob Brøchner Madsen, Jens Kjaer Sørensen, Kurt Richebächer, Nouriel Roubini, Peter Schiff, and Robert Shiller.

Housing bubbles

Housing price appreciation in selected countries, 2002-2008

By 2007, real estate bubbles were still under way in many parts of the world, especially in the United States, France, United Kingdom, Italy, Spain, The Netherlands, Australia, United Arab Emirates, New Zealand, Ireland, Poland, South Africa, Israel, Greece, Bulgaria, Croatia, Norway, Singapore, South Korea, Sweden, Finland, Argentina, Baltic states, India, Romania, Ukraine, and China. U.S. Federal Reserve Chairman Alan Greenspan said in mid-2005 that "at a minimum, there's a little 'froth' [in the U.S. housing market]...it's hard not to see that there are a lot of local bubbles".

The Economist magazine, writing at the same time, went further, saying "the worldwide rise in house prices is the biggest bubble in history". Real estate bubbles are (by definition of the word "bubble") followed by a price decrease (also known as a housing price crash) that can result in many owners holding negative equity (a mortgage debt higher than the current value of the property).

Increases in uncertainty

Increases in uncertainty can depress hiring, investment, or consumption. The 2007-14 recession represents the most striking episode of heightened uncertainty since 1960.

Ineffective or inappropriate regulation

Regulations encouraging lax lending standards

Several analysts, such as Peter Wallison and Edward Pinto of the American Enterprise Institute, have asserted that private lenders were encouraged to relax lending standards by government affordable housing policies. They cite The Housing and Community Development Act of 1992, which initially required that 30 percent or more of Fannie's and Freddie's loan purchases be related to affordable housing. The legislation gave HUD the power to set future requirements, and eventually (under the Bush Administration) a 56 percent minimum was established. To fulfil the requirements, Fannie Mae and Freddie Mac established programs to purchase $5 trillion in affordable housing loans, and encouraged lenders to relax underwriting standards to produce those loans.

These critics also cite, as inappropriate regulation, "The National Homeownership Strategy: Partners in the American Dream ("Strategy"), which was compiled in 1995 by Henry Cisneros, President Clinton's HUD Secretary. In 2001, the independent research company, Graham Fisher & Company, stated: "While the underlying initiatives of the [Strategy] were broad in content, the main theme ... was the relaxation of credit standards."

The Community Reinvestment Act (CRA) is also identified as one of the causes of the recession, by some critics. They contend that lenders relaxed lending standards in an effort to meet CRA commitments, and they note that publicly announced CRA loan commitments were massive, totaling $4.5 trillion in the years between 1994 and 2007.

However, the Financial Crisis Inquiry Commission (FCIC) concluded that Fannie & Freddie "were not a primary cause" of the crisis and that CRA was not a factor in the crisis. Further, since housing bubbles appeared in multiple countries in Europe as well, the FCIC Republican minority dissenting report also concluded that U.S. housing policies were not a robust explanation for a wider global housing bubble.

CHAPTER 12

Global Trade Relations

A map showing the global distribution of Indian exports in 2006 as a percentage of the top market (USA – $20,902,500,000).

Until the liberalisation of 1991, India was largely and intentionally isolated from the world markets, to protect its economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment (FDI) was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector. The restrictions ensured that FDI averaged only around $200 million annually between 1985 and 1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians. India's exports were stagnant for the first 15 years after independence, due to general neglect of trade policy by the government of that period. Imports in the same period, due to industrialisation being nascent, consisted predominantly of machinery, raw materials and consumer goods.

Since liberalisation, the value of India's international trade has increased sharply, with the contribution of total trade in goods and services to the GDP rising from 16% in 1990–91 to 47% in 2008–10. India accounts for 1.44% of exports and 2.12% of imports for merchandise trade and 3.34% of exports and 3.31% of imports for commercial services trade worldwide. India's major trading partners are the European Union, China, the United States of America and the United Arab Emirates. In 2006–07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver. In November 2010, exports increased 22.3% year-on-year to 850.63 billion (US$14 billion), while imports were up 7.5% at 1251.33 billion (US$20 billion). Trade deficit for the same month dropped from 468.65 billion (US$7.5 billion) in 2009 to 400.7 billion (US$6.4 billion) in 2010.

India is a founding-member of General Agreement on Tariffs and Trade (GATT) since 1947 and its successor, the WTO. While participating actively in its general council meetings, India has been crucial in voicing the concerns of the developing world. For instance, India has continued

its opposition to the inclusion of such matters as labour and environment issues and other non-tariff barriers to trade into the WTO policies.

Balance of payments

Since independence, India's balance of payments on its current account has been negative. Since economic liberalisation in the 1990s, precipitated by a balance of payment crisis, India's exports rose consistently, covering 80.3% of its imports in 2002–03, up from 66.2% in 1990–91. However, the global economic slump followed by a general deceleration in world trade saw the exports as a percentage of imports drop to 61.4% in 2008–09. India's growing oil import bill is seen as the main driver behind the large current account deficit, which rose to $118.7 billion, or 11.11% of GDP, in 2008–09. Between January and October 2010, India imported $82.1 billion worth of crude oil.

Due to the global late-2000s recession, both Indian exports and imports declined by 29.2% and 39.2% respectively in June 2009. The steep decline was because countries hit hardest by the global recession, such as United States and members of the European Union, account for more than 60% of Indian exports. However, since the decline in imports was much sharper compared to the decline in exports, India's trade deficit reduced to 252.5 billion (US$4.0 billion). As of June 2011, exports and imports have both registered impressive growth with monthly exports reaching $25.9 billion for the month of May 2011 and monthly imports reaching $40.9 billion for the same month. This represents a year on year growth of 56.9% for exports and 54.1% for imports.

The Great Recession is an ongoing marked global economic decline that began in December 2007 and took a particularly sharp downward turn in September 2008. The initial phase of the economic crisis started with a financial liquidity crisis, dated to have started on 9 August 2007, at the interbank lending market when central banks had to step in with liquidity lending to the banking market. This was a response to a situation where BNP Paribas temporarily had to block money withdrawals from three hedge funds - citing a "complete evaporation of liquidity". The bursting of the U.S. housing bubble, where the median price for real estate home sales in US started to decline after its peak in July 2006, caused the values of securities tied to U.S. real estate pricing to plummet, damaging financial institutions globally and creating an interbank

credit crisis. The first sign of an interbank credit crisis arrived in March 2007, when the United States' subprime mortgage industry collapsed due to higher-than-expected home foreclosure rates, with more than 25 subprime lenders declaring bankruptcy, announcing significant losses, or putting themselves up for sale.

The Great Recession began as a national recession in United States in December 2007, but only met the IMF criteria for being a global recession, requiring a decline in annual real World GDP per‑capita (Purchasing Power Parity weighted), in the single calendar year 2009. Despite the fact that quarterly data are being utilized as recession definition criteria by all G20 members, representing 85% of the World GDP, IMF has decided -because of the absence of a complete data set- not to declare/measure global recessions according to quarterly GDP data. The seasonally adjusted PPP‑weighted real GDP for the G20‑zone, however is a good indicator for the World GDP, and it was measured to have suffered a direct quarter on quarter decline during the three quarters from Q3‑2008 until Q1‑2009, which more accurately mark when the recession took place at the global level. The exact start and end-point for the recession at the national level, however greatly varied from country to country, and some countries did not experience any recession at all.

Many countries in Europe had a second recession, starting on average about three years after the first one. Some (Germany, Switzerland, Sweden) did not have a second recession. Most countries outside Europe did not have a second recession.

The recession affected the entire world economy, with greater detriment to some countries than others, but overall to a degree which made it the worst global recession since World War II. It was a major global recession characterised by various systemic imbalances, and was sparked by the outbreak of the U.S. subprime mortgage crisis and financial crisis of 2007–08. The economic side effects of the European sovereign debt crisis, austerity, high levels of household debt, trade imbalances, high unemployment, and limited prospects for global growth in 2014, continue to provide obstacles for many countries to achieve a full recovery from the recession.

According to the U.S. National Bureau of Economic Research (the official arbiter of U.S. recessions) the US recession began in the United States in December 2007 and ended in June 2009, and thus spanned over 18 months. US mortgage-backed securities, which had risks that

were hard to assess, were marketed around the world. A more broad based credit boom fed a global speculative bubble in real estate and equities, which served to reinforce the risky lending practices.

The bad financial situation was made more difficult by a sharp increase in oil and food prices. The emergence of sub-prime loan losses in 2007 began the crisis and exposed other risky loans and over-inflated asset prices. With loan losses mounting and the fall of Lehman Brothers on 15 September 2008, a major panic broke out on the inter-bank loan market. As share and housing prices declined, many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance.

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India's reliance on external assistance and concessional debt has decreased since liberalisation of the economy, and the debt service ratio decreased from 35.3% in 1990–91 to 4.4% in 2008–09. In India, External Commercial Borrowings (ECBs), or commercial loans from non-resident lenders, are being permitted by the Government for providing an additional source of funds to Indian corporates. The Ministry of Finance monitors and regulates them through ECB policy guidelines issued by the Reserve Bank of India under the Foreign Exchange Management Act of 1999. India's foreign exchange reserves have steadily risen from $5.8 billion in March 1991 to $283.5 billion in December 2009.

Foreign direct investment

As the third-largest economy in the world in PPP terms, India is a preferred destination for FDI; During the year 2011, FDI inflow into India stood at $36.5 billion, 51.1% higher than 2010 figure of $24.15 billion. India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery. Despite a surge in foreign investments, rigid FDI policies were a significant hindrance. However, due to positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front-runners of the rapidly growing Asia-Pacific region. India has a large pool of skilled managerial and technical expertise. The size of the middle-class population stands at 300 million and represents a growing consumer market.

During 2000–10, the country attracted $178 billion as FDI. The inordinately high investment from Mauritius is due to routing of international funds through the country given significant tax advantages; double taxation is avoided due to a tax treaty between India and Mauritius, and Mauritius is a capital gains tax haven, effectively creating a zero-taxation FDI channel.

India's recently liberalised FDI policy (2005) allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment FDI. The upward moving growth curve of the real-estate sector owes some credit to a

booming economy and liberalised FDI regime. In March 2005, the government amended the rules to allow 100% FDI in the construction sector, including built-up infrastructure and construction development projects comprising housing, commercial premises, hospitals, educational institutions, recreational facilities, and city- and regional-level infrastructure. Despite a number of changes in the FDI policy to remove caps in most sectors, there still remains an unfinished agenda of permitting greater FDI in politically sensitive areas such as insurance and retailing. The total FDI equity inflow into India in 2008–09 stood at 1229.19 billion (US$20 billion), a growth of 25% in rupee terms over the previous period. India's trade and business sector has grown fast. India currently accounts for 1.5% of world trade as of 2007 according to the World Trade Statistics of the WTO in 2006.

Exchange Rate Management

Exchange rate policy in India evolved over time. After independence the Indian rupee was pegged to the British currency pound sterling. In the aftermath of the two wars in 1962 and 1965 and severe drought, the Government devalued the rupee by 35% in 1966. The rupee was delinked from the pound sterling in 1975. In 1991 India faced the major foreign exchange crisis and the rupee was devalued by around 19% in two stages on 1 and 2 July. In 1992 a Liberalized Exchange Rate Mechanism – LERMS- was introduced. Under LERMS exporters had to surrender 40 percent of their foreign exchange earnings to the RBI at the RBI determined exchange rate. The balance 60% was allowed to be converted at the market determined exchange rate. In 1994 the rupee was convertible on the current account. It is not yet fully convertible on the capital account. Thus, over the years India has moved from a fixed exchange rate regime to a managed float regime. Central Bank intervenes in the foreign exchange market to curb excessive volatility.

After the sharp devaluation in 1991 and transition to current account convertibility in 1994, the value of the rupee is largely determined by the market forces. The rupee has been fairly stable during the decade 2000 to 2010 even though there were sharp swings in 2008 following the Lehman collapse and the capital flight that it triggered. In June 2012 the rupee touched an all time low 57.33 to the dollar. The sharp depreciation in the rupee has been caused by the rising and unsustainable current account deficit which touched 4.5% for 2011–12. Port folio flows showed down following the risk aversion caused by the European debt crisis. The adverse impact

on the investor sentiment caused by the General Anti-Avoidance Rule (GAAR) legislation introduced in the 2012 union budget also impacted capital inflows. Another major factor has been the cross currency movements caused by global risk aversion. Dollar again become the safe haven and the consequent flight to safety depreciated many Emerging Market currencies.

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