SYLLABUS

Class – B.A. (HONS.) MASS COMMUNICATION

II Year

Subject – ECONOMIC DEVELOPMENT & PLANNING IN INDIA

(Paper I)

UNIT-I	Economic growth: Meaning & Concept
UNIT-II	Economic backwardness: concept and Measurements
UNIT-III	Developing nations- their common characteristics General requirements for economic development
UNIT-IV	Various theories of growth and development
UNIT-V	Problems of economic development Population Growth and economic development Unemployment, Poverty and economic development

UNIT-I
ECONOMIC GROWTH: MEANING AND CONCEPT

There is no unanimity on exact definition of the word economic growth. the term economic growth and economic development used to consider in the same meaning but now a days some economist have differentiate these terms.
Economic growth is defined as a process of sustained increase in the real national income over a long period of time. the word process means operation of certain forces embodying changes in certain variables like population growth, improvement in skill ,capital accumulation etc. the general effect of the process is reflected in the growth of an economy's national product.

Economic growth is an increase in aggregate output of goods and services in a country during a given period of time.
Economic development
Till 1960 the term economic development was used as synonyms of economic growth in economic literature but now it is Economic development is distinguished from growth.
Economic development refers to process of change in the overall economic activity and is not ot be confused with same scattered development in some parts of country. so we can say that economic development includes only those changes momentum and continuously lead the whole country to higher levels of economic activity.

INDICATORS OF ECONOMIC GROWTH
Real national income-national income at constant prices is also called rela national income.
Real per capita income-per capita income is defined as the income per head of population in an economy.

UNIT-II
ECONOMIC GROWTH: MEANING AND CONCEPT

Economic backwardness: concept and measurement
Economic backwardness is the simplest to define. If income does not suffice to meet the basic needs. Social backwardness is people belonging to a certain group are considered to be inferior to other groups. This ultimately results in economic backwardness as because of this prejudice the group is denied opportunities and face unequal treatment in all walks of life.
Economic backwardness is what the Govt defines it. People who live below a certain income level are economically backward. Earlier, those below 2.5lacs per annum were considered economically backward of society. Now people above 4.5 lacs are considered cream of society. That is those below 4.5 lacs per annum are to be considered as economically backward.

Measurements of economic backwardness:
A. UNEMPLOYMENT
  1. THE MARKET WAGE RATE PROCESS
  2. THE LABOR UNION WAGE RATE CONCEPT
  3. THE CAUSE OF UNEMPLOYMENT
  4. THE REMEDY FOR MASS UNEMPLOYMENT
  5. THE EFFECTS OF GOVERNMENT INTERVENTION
  6. THE PROCESS OF PROGRESS

B.PRICE DECLINES AND PRICE SUPPORTS
  1. THE SUBSIDIZATION OF SURPLUSES
  2. THE NEED FOR READJUSTMENTS

C. TAX POLICY
  1. THE ANTI-CAPITALISTIC MENTALITY

Obstacles to Economic Development
Problems such as poverty, inequality, unemployment, and the lack of rural development are the result of economic, political, and social forces, both internal and external, which limit economic development. This section identifies some of the most significant economic, political, and social obstacles to development and the next section provides policy options to address them.

1. Poverty cycle:
Low incomes --> Low savings --> Low investment --> Low productivity --> low income..

2. Economic obstacle:
Although they are often linked, economic obstacles can be divided into those which are largely the result of domestic policies (internal) and those which are related to the structure of the international economy

Internal Obstacles
There are five main internal obstacles to economic development: underdeveloped financial systems, the lack of economic freedom, macroeconomic instability, and an underdeveloped infrastructure.

External Obstacle: External obstacles also limit economic development. In contrast to developed countries, developing countries are very vulnerable to fluctuations in the global economy. For example. Africa's economic growth slowed in 2001 as a global economic slowdown impacted both aid and foreign direct investment in the region. This situation is the result of the following factors: dependence on exports of primary products, unequal terms of trade, changes in export demand, and dependence on external funding.

3. Political obstacles:
In developing countries, political obstacles have a much larger impact on economic development than economic obstacles. This is because economic policies are created and implemented by politicians. Political obstacles include underdeveloped institutions and too much government intervention in the economy.

Political instability
Important to attract FDI
Important that the next government assume the debt obligations of outgoing government
Rule by the will of the people OR for the government in power - who is the government working for?

4. Underdeveloped Institutions:
In most developing countries, governmental institutions are either absent, inefficient, or extremely weak. Even in countries with the requisite institutions, incompetent and/or unqualified civil servants, burdensome bureaucratic procedures, resistance to change, inept management, departmental rivalries, and pervasive cronyism greatly limit the government's effectiveness. Poor governance has three main consequences:
1. Unstable economic and political policies
2. Creates obstacles to economic growth
3. Fosters corruption

While not primary obstacles to economic development, social obstacles can also slow economic growth and limit economic development. Three of the most important obstacles are population growth, lack of access to education and environmental devastation.

6. Population Growth:
As noted in the Population Section 80 percent of the world's population lives in the developing world (i.e. the part of the world with the least amount of resources). In many developing countries, the population is growing faster than the ability of society to provide the education and skills necessary to improve economic growth. In addition, a rapidly growing population lowers per capita income growth, especially for those who are already poor, live in rural areas, and depend on agriculture.

7. Lack of Access to Education:
Since human resources ultimately determine the character and pace of economic development, a poorly educated workforce limits increases in productivity and competitiveness, thus slowing economic growth. There are two major factors which limit educational access: poverty and a rapidly expanding population. The former prevents poor families from sending their children to school and the latter dilutes educational expenditures, diminishing their effectiveness.

8. Environmental Devastation:
In traditional economic growth models, the cost of destroying the natural resources base was not included in GDP figures. However, as a result of increasing environmental degradation and declining economic growth rates in developing countries, more attention has been directed to the links between environmental issues and development. Damage to water supplies, land, and forests slows economic development by increasing health related costs, reducing agricultural productivity, and increasing the

income gap between rich and poor. In other words, the destruction of environmental resources lessens developmental potential.

Poor Governance:
Economic development is greatly affected by the quality of government. A country without a government that has an open policy-making process, an effective bureaucracy, published rules, and a transparent regulatory structure will limit economic development. (This link sends you to another section in this course. Use the browser Back button to return)

Population Growth:
Economic development begins with the individual. In many parts of the world, the population is growing at rates that make it difficult to provide the population with the education and skills necessary to improve economic output. To overcome this situation, governments need to limit population growth.

Restrictions on trade and investment:
Rules and regulations, both official and unofficial, have a significant impact on economic development. Because many developing countries do not have the requisite resources to foster economic growth, both domestic and international investment and trade are necessary for economic development. The flow of capital and goods in and out of countries improves living standards and helps expand local businesses.

Lack of the rule of law:
Research shows economic development is strongly affected by the quality of legal institutions. The rule of law creates a predictable and secure environment for people to produce, trade, and invest. This expands employment opportunities and incomes.

Educational Impediments:
It is generally accepted that the human resources of a country, not its physical capital or natural resources, ultimately determine the character and pace of economic development. Therefore, a poorly educated and trained workforce limits increases in productivity and competitiveness, slowing economic growth

Corruption:
- An issue worldwide; many different forms; some quite subtle in nature
- Most involving bribes for getting imports into a country or in bidding on government contracts
- Transparency International

Unequal distribution of income:
- Redistribution of assets often does not happen or does not happen fairly (transparently)
- If the most important cause of inequality is an unequal distribution of land, natural resources and capital, attempts must be made to redistribute at least some natural resources such as land
- Land reform can often lead to a dramatic increase in farm productivity and incomes for the rural poor

UNIT-III

ECONOMIC GROWTH: MEANING AND CONCEPT

DEVELPOING NATIONS: THEIR COMMON CHARACTERISTICS
Developing countries have some common characteristics which clearly distinguish them from developed countries. Most developing countries are poor and their present level of productivity is neither good enough to ensure a satisfactory level of consumption, nor does it generate an economic surplus that may be adequate for sustain development burdens have been high. Rapid growth of population has also resulted in chronic unemployment. As far as the nature of economy in these countries is concerned, it is essentially agrarian and the dependence on agriculture production and primary product exports is substantial. Most observers now some common features which make Asia, Africa, and Latin America in spite of their diversities have some common diversity of which makes them a distinct category.

Low level of GNI per capita and slower GNI capita growth: the gross national product per capita or gross national income per capita considered to be a god index of them in an extremely miserable position. According to the estimate of the World Bank, in 2000 there were 64 low incomes economics where the GNI per capita at the current prices was $755 or less. Further, in sixteenth countries belonging to this category the GNI per capita was estimated at $250 or even less. This low level of GNI per capita Is sufficient to reflect the plight of common people in these countries.

Larger income inequalities and widespread poverty: in developing countries apart from GNP per capita being considerably lower, income inequalities are also larger than in developed countries. The extent of absolute poverty is an important dimension of the problem of income distribution in the developing countries. At relatively lower levels of GNP per capita large income inequalities as they exist in the developing countries of Asia, Africa and Latin America, have resulted in widespread poverty.

Low level of productivity: labor productivity in developing countries is invariably low. It is both a cause and effect of low levels of living in these countries. Labour productivity depends on a number of factors, particularly the availability of other inputs to be combined with labour - health and skill of workers, motivation for work and institution flexibilities.

Great dependence on agriculture with a backward industrial structure: The industrial sector in the developing countries is both small and backward. While the extended industrial sector in these countries accounts for about a fifth of the total product in these countries small scale factories and handicrafts are also include in manufacturing. The backwardness of the industrial structure is also reflected in the composition of the industrial output. The major manufacturers I the developing countries even now do not have much ability to produce their own producer goods, particularly capital equipment.

High production of consumption expenditure and low saving rate: on examining the major use of structure of gross national product in the standard national accounts it is concluded that the income level is low, the propensity to consume will be high, and as a consequences capital formation will be low.

High rates of population growth and dependence burdens: population has been rising in most developing countries at rates varying between 2 and 3.5 per cent annum for the past few decades. This demographic trend is unprecedented in the morality rates in these countries. A high rate of population growth in the Third World countries is both a cause and an effect of their underdevelopment. People struggling to survive under sub-human conditions have practically no interest in restricting the size of their families, as they have virtually no stakes in their life. This attitude of indifference causes still more hardships to the people and creates conditions which are hardly conductive to economic growth in these countries.

High levels of unemployment and underemployment: unemployment in both rural and urban areas is widespread in the developing countries. The traditional agriculture characterized by outmodes techniques of production and low level of productivity lacks labour absorption capacity. Thus with rapidly growing population in these countries, pressure of population on agricultural land has been increasing and with it the problem of disguised unemployment is becoming increasingly serious.

Technological backwardness: In developing countries production techniques are insufficient over a wide range of industrial activity. Under the circumstances, an attempt is made to import technology from developed countries which often fails to adapt to local conditions. In the industrial sector, workers union often oppose introduction of labour displacing technology. This organized attempt on the part of workers may be a retrogressive act form the point of view of industrial development, yet it is justified because modern technology will certainly render many workers jobless at least temporarily.

General requirement of developing nations –

Following are the general requirement for a developing nation:

1. **Proper utilization of natural resources**: there are many natural resources available in a developing nation so it is necessary to utilize those natural resources properly. Resources contain land, wealth, forest minerals climate water etc.
2. **Proper structure of economy and government**: there should be a proper structure of economy and the government of a country so plans can be made in a organized form and can be implemented in prescribed time.
3. **Good infrastructure:** in developing nations it is required to have a good infrastructure that includes basic industries, transportations', sanitation etc.
4. **Removal of poverty and population problem**: increasing population and poverty isn obstacle for development. So it is necessary to remove these problems for proper development
5. **Good standard of living**: human being is vital assets and strength of a country. so its is compulsory to provide them good standard of living that includes good health, nutritious food good habitation.
6. **Advancement of agriculture:** all developing nation are basically based on agriculture but it is based on old technology. Advancement in agriculture can rise more opportunities for the development

Unit –IV

Various theories of growth and development

1) Classical economics refers to work done by a group of economists in the eighteenth and nineteenth centuries. The theories developed mainly focused on the way market economies functioned. Classical Economics study mainly concentrates on the dynamics of economic growth
2) The generalized classical theory on growth and stagnation is a combination of the contributions of Adam Smith, David Ricardo and Robert Malthus. The theory was put together by combining the common stands of thought, within the individual growth theories, of these renowned classical economists. To understand the generalized **classical theory of growth and stagnation**, let us first look into the individual theories propagated by each of the three economists in detail.

ADAM Smith's THEORY OF GROWTH

Adam Smith (1723-1790) was a Scottish philosopher and economist, who is renowned as the author of The Wealth Of Nations (1776), one of the most influential books on market economics ever written Adam Smith identified three major sources of growth:

(i) **Growth in the labour force and stock of capital**: The growth of the labour force is largely dependent of the rate at which population grows in a country. According to Adam Smith, rate of population growth in the long run depends on the funds available for human sustenance. Assuming that this statement is true, it can be said that the wage rate prevailing in the market is an important determinant of the size of population. The supply of labour is normally expected to be in equilibrium with the demand for labour. If the demand of labour continuously rises. Causing the wage rate to increase above subsistence level, this would induced the working population to multiply faster, as a result of which supply of labour would also increase, pushing the wages down. In case, the wage rate has fallen below the level of subsistence. in time the demand for labour would restore it to the subsistence level again. In each of the above cases, any disturbance of the wage rate from its subsistence level, due to the disturbance in the equilibrium between the supply and demand for labour, would automatically set into motion a cycle, the end result of which, would lead the wage rate to equal subsistence wages.

(ii) Improvement in the efficiency With which capital is used in labour through greater division of labour and technological progress: Capital accumulation has been assigned a strategic and calculated role in the growth process in Adam smith's theory. According to him, growth is functionally related to the rate of investment. This mean that if a country is subject to a fixed capital stock, it is bound to suffer stagnation. Adam Smith states that, any increase in the capital stock in a country generally leads to more than a proportional increase in the output on account of constantly growing division of labour.

(iii) Promotion of foreign trade that widens the market ad reinforces the other two sources of growth.

The production function

To understand the final growth process as stated by Adam Smith in this theory, we first need to look into the individual components, which have laid the foundation of the theory. These are Adam Smith's Production Function, his views on the process of growth of labour force and capital accumulation in the economy. Adam Smith recognized only three factors of production: land, labour and capital. Considering these three factors, his production function may he expressed as

$$Y = f(K, L, N)$$

Where, K represents the capital L denotes labour force N stands for land

David Ricardo's theory of growth

To understand the final growth process as stated by Ricardo in this theory, we first need to look into the individual concepts, which have laid the foundation of the theory. These are the production function, his views on land and human resources, and the process of capital accumulation in the economy.

1) **The production function** Ricardo's production function, similar to that of Adam Smith, considers only three factors of production, namely Land, Labour and Capital Ricardo observed that

marginal productivity of all the factors invariably declines unless it is monitored by technological progress. In Agriculture, introduction of new technology merely delays the decline in the marginal productivity of land, while, in industry. technology outweighs the tendency towards diminishing marginal, and as a result a tendency of increasing returns sets in. We can write Ricardo's production function as Y = f (K, N, L, S) K, N and L signifies Capital, labour force, and land respectively (the same as Smith's production function). The new variable S represents Technical know-how

2) **Land and human resources:** Ricardo's views on land were precise and well defined. In his opinion land included only the original and indestructible powers of the soil. 'thus, in his opinion supply of' land in fixed. His theory of population growth is very similar to that of Smith's. He distinguished 'natural wage' from the 'real wage which is exactly the same concept of subsistence wages.

3) **Capital accumulation**: In Ricardo's theory of growth. Capital Accumulation play a strategic role, in his system, capital includes both fixed capital and circulating capital (the portion of an organization's investment that is continually used and replenished in ongoing operations) which grows at a proportional rate to the fixed capital. It is an increase in this variety of capital which determines the increase in the demand for labour. .

MALTHUS THEORY OF GROWTH

1) Robert Malthus (1766-1834) was an economist who was most famous his doctrine which stated that "population increases in a geometric ratio, while the means of subsistence increases in an arithmetic ratio.

2) **Human resources and capital accumulation** According to Malthus, population growth. to a great extent, depends on the strengths of psychological and physiological forces. I le also admitted that Population growth is limited by society's riches. a country

3) Effective demand which is the quantity of a good or service that consumers are actually buying at the current market price, is the main for propelling the growth process. Malthus believes that an increase in the population does not provide a stimulus to economic growth as, it may not increase effective demand because workers often may be lacking in purchasing power clue to the lack of demand of their labour.

4) According to Malthus Y = R+W. Where, I represents National income, R denotes profit. W states the wages

5) **Growth-retarding factors**: Malthus also gave light on three main factors which he thought sometimes arrest economic growth. Firstly. he refers to a backward sloping curve of effort for both Workers and managers. Secondly, inability of an economy, to structurally transform itself into an industry based economy, may lead to economic retardation. Thirdly, intersectoral analysis of Malthus suggested that technological progress in a count!)' had to be rapid enough to permit large investment in the industrial sector.

The CLASSICAL THOERY OF GROWTH

1) The classical economists had explained growth process in terms of rates of technological progress and the population growth. In their opinion, technological progress (depending on capital accumulation) remains in lead for some time. but eventually falls when a fall in the profit rates prevent further accumulation of capital. It is as this stage that the economy tails into a state of stagnation. The main components of the Classical theory of growth and Stagnation are the production function, technological progress, investment, the determinants of profit, size of labour , force and the wage system.

2)The production function Smith. Ricardo and Malthus all postulated the identical production function, which can be written as Y = f (K, L, N, S)………… (I) which means that output depends on the stock of capital, labour force. land and the level of technology. In the generalized classical growth model 'I and' is taken as ¨the supply of known and economically useful resources -

3) **Technological progress and its constraints** : Most classical economists believe that the main constraint to technological progress is Capital Accumulation: According to them. technological progress could not be assumed to be completely independent factor. In their opinion. Technological progress is a capital absorbing and therefore, capital accumulation is a pre-requisite for a steady advance of technology. For this Capital Accumulation they stressed on savings and

Investment as a primary factor.
4)**Investment :** Investment, in the classical model, refers to Net investment, which is the net addition to the capital stock. For the classical economists profit was the sole motivator for all productive activity, and therefore, they believe that investment activity is dependent on the profit expectations of the entrepreneurs, which is largely influenced by the rate of profit.

6) **Determinants of Profits** By studying the many theories of classical economists, it is possible to Identify two main factor which determine the level of profits in a system. They are, one, the supply of labour force (which is dependent on the population growth) and two, the technological progress. The classical economists thought that population would grow over time leading to an increase in the labour force. Since supply of labour is fixed, the increase in population would lead to diminishing returns in agriculture which would increase labour costs and reduce profit margins.

ROSTOW'S STAGES OF GROWTH
The Rostow's Stages of Growth model is one of the major historical models of economic growth. It was developed by XV. W. Rostow in 1960. The model postulates that economic growth occurs in five basic stages, of varying length:
1. Traditional society
2. Preconditions for take-off
3. Takeoff
4. Drive to maturity
5. Age of High mass consumption

Below is a detailed outline of Rostow's 5 Stages:
- Traditional society characterized by subsistence agriculture or hunting & gathering; almost wholly a "primary" sector economy limited technology; A static or 'rigid' society: lack of class or individual economic mobility, with stability prioritized and change seen negatively
- **Pre-conditions to "take-off"**
- external demand for raw materials initiates economic change; development of more productive, commercial agriculture & cash crops not consumed by producers and/or largely exported

widespread and enhanced investment in changes to the physical environment to expand production (i.e. irrigation, canals, ports) increasing spread of technology & advances in existing technologies changing social structure, with previous social equilibrium now in flux individual social mobility begins
- development of national identity and shared economic interests
- **Take off**
- manufacturing begins to rationalize and scale increases in **a** few leading industries, as goods are
- made both for export and domestic consumption
- the "secondary" (goods-producing) sector expands and ratio of secondary vs. primary sectors in the economy shifts quickly towards secondary
- textiles & apparel are usually the first "take-off' industry, as happened in Great Britain's classic "Industrial Revolution"
- **Drive to maturity**
  diversification of the industrial base; multiple industries expand & new ones take root q ickly.

- Manufacturing shifts from investment - driven (capital goods) towards durables & domestic consumption .
- Rapid development of transportation infrastructure
- Large – scale investment in social infrastructure(schools , universities ,hospitals ,etc)
- Age of mass consumption

UNIT V

PROBLEMS OF UNEMPLOYMENT

Meaning of Employment

Absence of jobs is popularly known as unemployment. When people are in jobs and perform their tasks with low productivity, it is also called unemployment. When available human resources are utilized poorly, it is also called unemployment. Thus, "Unemployment in a wider sense is being used to encompass tasks done with low productivity and poor utilization of available human resources as well as the absence of jobs per se." The problem of employment in India is concerned with the jobless with the jobless workers both in rural and urban areas. There is lack of work opportunities to all.

Types of Unemployment

We may visualize the problem of unemployment from various angels of vision. They may be differentiated on account of their distinct nature inherent in them resulting from the different economic circumstances. They have been classified under the following designations:

1. Structural Unemployment – Structural unemployment denotes that part of working force which is excess of community's stock of capital. The instruments of production constitute community's stock of capital. Tools and implements required to engage in productive activity are the instruments of production. The primitive man required elementary tools like the bow and the arrow to engage in hunting for the earning of his livelihood. In the modern age costly technology is needed to engage in productive activity. For this, much more capital is required to be invested. If the working force gross faster than the stock of capital of a country, the entire addition to the labour force cannot be absorbed in employment because instruments of production are not enough to employ them. It results into structural unemployment. It is also called long-term or Marxian unemployment this type of unemployment actually exists in India.
2. Cyclical Unemployment – It is also called Keynesian unemployment, it is due to deficiency of aggregate effective demand. Cyclical unemployment appears when business depression occurs. Depression usually occurs at regular intervals. During depression, business activity is at low ebb, machine become idle/and demand for labour falls because the demand for the products of industry is no longer there. Some people are thrown out of employment. Advanced capitalist countries have been suffering from time from this type of unemployment. This type of unemployment arises not because of too little capital as in the case of structural unemployment, but because of too much capital for a short while in relation to demand for goods and services.
   This type of unemployment caused by economic fluctuations did arise in India during the depression in the 1930s which caused untold misery. But with the growth of Keynesian remedies, it has been possible to mitigate cyclical unemployment.
3. Frictional Unemployment – After the Second worked War, when war-time industries were being closed, there was a good deal of frictional unemployment caused by retrenchment in the army, ordnance factories, etc. these workers were to be absorbed in peace-time industries. In a growing economy, in which some industries are declining and others are rising and in which people are free to work whenever they wish, some volume of frictional unemployment is bound to exist, 6.8 it takes time for the labour to shift to new places. In frictional unemployment, workers are only temporarily unemployed due to immobility of labour, breakdowns in machinery, shortage of materials, ignorance seekers etc. The process of rationalization which started in India since 1950 caused some displacement of labour. To some extent, ranging between 2 to 3 per cent among industrial workers, frictional unemployment is considered natural and inevitable. The flexibility of an economy can be judged from the speed with it heals frictional unemployment.

4. Seasonal Unemployment – Seasonal unemployment arises because of the seasonal character of a particular productivity activity so that people become unemployment during the slack season. It s a sort of under-employment. It is caused by climatic factors. Agriculture in India is by nature a seasonal occupation. It has been estimated that for at least five months in a year, people engaged in agriculture remain idle. Other examples of seasonal industry are the ice factories, the rice mills, the sugar factories, etc. The solution has to be found y creating subsidiary jobs for the people suffering from seasonal unemployment. Development of handicrafts and cottage industries with prove helpful in this regard.
5. Disguised Unemployment – It is also under-employment. Disguised unemployment is found in India and in underdeveloped countries. It is not the result of deficiency of effective demand in the Keynesian sense, but a consequence of shortage of capital equipment. Disguised unemployment refers to a situation where too many people are engaged in agriculture.
6. Urban and Education Unemployment – There is urban unemployment among industrial labours and among the education middle class. With the spread of urbanization, people from the rural areas shift to the urban areas. The rate at which the expansion of industries has been taking place is not keeping pace with the growth of urban labour force. This has given rise to unemployment among industrial workers in India. The second type of urban unemployment exists among the educated middle class. It includes persons who are not well-to-do enough to dispense with their own living, who follow non-manual occupations and have received some form of higher education. Discontentment among the educated is a potential threat to social stability. It should be reduced to the minimum. The existence of unemployment among the members of the 'white-collar class' is the result of an educational system which is highly loaded in favour of liberal or general education and partly of a slower rate of industrial expansion to absorb these unemployed in technical jobs.
7. Open Unemployment and Underemployment – There is very little open unemployment in India. There is considerable seasonal unemployment and/or underemployment. T he difference between the two rests on the duration of unemployment at a stretch.
   Open unemployment is found in the developed industrial countries, whose cause is the deficiency of effective demand during depression. Owing to reduction in aggregate demand, output is reduced in some factories and other factories are altogether closed due to lack of demand for their goods. As a result, labour employed in such countries is retrenched. Thus, there is open unemployment of industrial labour in spite of the availability of capital.
   In under-employment, person in rural areas as well as urban areas are found working less than 14 hours per week, or less than 28 hours per week. When people get employment for a period lesser than their capacity of working, it is called under-employment. Under-employment has been found severe in India. It is caused by the deficiency of capital equipment or by a lack of capital formation.

Nature of Unemployment in India

Analysis of unemployment in India has made it evidently clear that most of the unemployment in this country is structural, i.e., the structure of the company is such that it does not absorb an increasing number of people coming to labour market in search of job.

Urban unemployment is mainly of industrial unemployment and educated unemployment type and rural unemployment is seasonal and disguised in nature.

Estimates of Unemployment in India

A person working 8 hours a day for 273 days of the year is regarded as employed on a standard person year basis. On the basis of the recommendations of the committee of experts on unemployment estimates set up by the Planning Commission, here estimates of unemployment were generated in the 72th Round of NSS.

1. Chronic Unemployment or Usual Principal Status Unemployment is measured in number of persons i.e., persons who remained unemployment for a measure part of the year. This measure is more appropriate to those in search of regular employment, e.g., educated and skilled person who may not accept casual work. This is also referred to as "Open employment'.
2. Weekly status unemployment (measured in number of persons) i.e., persons who' did not find even an hour o work during the survey week.
3. Daily Status Unemployment (measured in person days or person years) i.e., persons who did not find work on a day or some days during the survey work.
   The usual status unemployment rate is generally regarded as the measure of open unemployment during the reference year; the Current Weekly Status (CWS) unemployment rate also measures chronic unemployment, but with reduced reference period of a week. The Current Daily Status (CDS) is considered to be a comprehensive measure of unemployment, including chronic unemployment as well as under-employment on weekly basis.

Cases of Unemployment in India

Main causes unemployment in India can be discussed below-

1. Inappropriate educational system – The educational system in India is defective. It is in fast, the same educational system which Macaulay had introduced in this country during the colonial period. According to Gunnar Myrdal. India's educational policy does not aim at development of human resources. It merely produces clerks and lower cadre executive for the government and private concerns. With the expansion in the number of institutions which impart this kind of education, increase in unemployment is inevitable. It is so because education in arts, commerce and science will not ensure employment on account of its limited utility for productive purposes. If the problem of unemployment is to be solved in this country, radieal changes will have to be made in it. Any educational system which fails to develop human resources properly will not be able to provide employment to all those who have received it and hence to be thrown out rock, stock and barrel.
2. Inappropriate Technology – In India, while capital is a scarce factor, labour is available in abundant quantity. Under these circumstances, if market force operates freely and frequently, the country would have labour-intensive techniques of production. However, not only in industries, but also in agriculture producers are increasingly substituting capital for labour. In the western countries, where capital is in abundant supply, use of automatic machines and other sophisticated equipments is both rational and justified while in India, on account of abundance of labour, this policy results in large unemployment.
3. Increase in Labour Fore – In India, during the past decades mortality rate has declined rapidly without a corresponding fall in birth and the country has thus registered an unprecedented population growth. This was naturally followed by an equally large expansion in labour force.
   In India context, social factors affecting the labour supply are as much important as demographic factors. Since independence education among women has changed their attitude towards employment. Many of them now compete with men for jobs in the labour market. The economy has however, failed to respond to these challenges and the net result is continuous increase in unemployment.
4. Slow growth process and rapid decline in employment – The size of employment in any country depends considerably on the level of development. In India, during the past four decades or so production has expanded in all the sectors of the economy. In response to these developments the absolute level of employment has also grown. However, during the planning period unemployment in absolute terms has increased. This has happened because during the planning period trend rate of growth was considerable lower than the targeted rate. Therefore, jobs in adequate number were not created.
5. Lower record of Small Industries – Successive plan documents has emphasized the need for promoting small-scale industries to encourage creation of employment opportunities at a faster

rate. But annual average growth in employment shows that small-scale industries have failed to raise the tempo of employment.

6. Inadequacy of Wage-employment Programmes – It has been observed that the targets of the wage-employment programmes were more or less achieved in five-year plans, but their impact has been only marginal. They have covered only 60% of the villages in India so far and have been inadequate. They have proved simply annual action plans and have not allowed for long-term planning for employment.

Strategies to Reduce Unemployment in India:

1. Pradhan Mantri Gram Sadak Yojana (PMGSY)
2. India Awas Yojana(IAY)
3. Swarn Jayanti Gram Swarozgar Yojana (SJGSY)
4. Sampoorna Grameen Rozgar Yojana (SGRY)
5. National Rural Employment Guarantee Scheme. (NREGS)
6. Swarna Jayanti Shahri Rozgar Yozaja (SJSRY)

The schemes have been discussed earlier in this chapter.

Suggestions to Remove Unemployment

Employment growth at 2 percent a year is far too slow to bring down unemployment. All the five-year plans had as their objective the creation of additional employment through additional investment. We have noted that employment growth has not been commensurate with the economic growth. Hence, the provision of employment is a necessary part of the strategy of development in a poor country which can ill-afford to keep human resources, unutilized or underutilized. Hence, it would be worthwhile to outline the following contours of an employment-oriented strategy:

1. Labour-intensive Industrialisation – India should follow a pattern of industrialization with higher labour-intensity. There are two methods, labour-intensity and capital-intensity. Both are mere reciprocals of each other labour-intensity labour per unit of capital intensity signifies capital per unit of labour. It has been advocated that capital-intensive technology provides higher rate of growth, employment, saving and investment. As against this, labour-intensive units use more capital per unit of output and do not maximize output per unit of capital invesed. But empirical evidence indicates that value added per unit of fixed capital was lower in the case of highly capital-investive industries like petroleum refining, iron and steel, heavy chemicals etc., than that in labour-intensive industries like footwear, leather products, rice-milling, tobacco, brick-marking cotton and jute textiles, etc, Moreover, labour intensive industries generate a higher rate of saving and investment. Their rate of profit is also not much lower. According to a study of Dr. T.Y Wu, on the basis of statistics of India, Japan, Pakistan and Philippines, it has been found that the total income and wage income per unit of capital investment do increase with a decrease in capital intensity. Hence Dr. Wu concludes that in countries with large unemployment, labour-intensive industrialization should be followed so that more employment and large output could be availed, and thus "Capital-light production by providing more employment and large output and by reducing the needs of supporting the unemployed, may increase saving through external economy."
2. Employment-oriented Strategy of Industrialization – The goals of planning emphasis a steady of growth at about 8-9 per cent per annum, a continuous improvement in living standards, a wise equitable distribution of income and wealth, a balanced regional development, etc. a judicious process of development requires a balancing of these objectives. More and more expert opinion is veering round the view that an employment-oriented strategy of industrial development provides the best answer to the challenge of unemployment i India. This strategy requires action on the fronts of (i) further utilization of existing capacity, (ii) development of labour-intensive industries and (iii) rural industrialization.

3. Fuller Utilisation of Existing Capacity – The Reserve Bank of India has measured capacity utilization by obtaining the percentage of actual industrial production to total potential production. The study has revealed a declining trend of capacity utilization. Fuller utilization of capacities, therefore, can lead to the creation of more employment. Experience of planning in socialist countries reveals that one-third of the increase in industrial employment in the U.S.S>R. during the First Five Year Plan period (1928-32) was due to better capacity utilization.
4. Rural Industrialisation – To relieve unemployment and underemployment in rural areas, rural industrialization should be launched. In this regard processing of agriculture produce near the place of origin should be encouraged so that rural labour gets employment thereby. Not only should those ancillary feeder industries also be located near the rural areas. A programme of rural industrialization requires a number of supporting administrative, technical financial and organization measures; and should consider the feasibility of setting up the following types of industries; (i) Processing of agriculture produce, such as processing of rice, cotton ginning, preparation of milk products, oil extraction, jute manufacture, and extraction of sugar. (ii) Fruit and vegetable processing. (iii) Industries to utilize agriculture products, such as alcohol from molasses and bagasse, oil from rice bran, etc. (iv) Village handicrafts and cottage industries such as ploughs, picks, shovels wheel barrows, etc. Already the products of Village handicrafts have begun to earn foreign exchange.
   Such industries offer good scope for employment to a large number of people.
5. Unorganised Sector – In manufacturing industry, it is the unorganized sector that holds the key to faster employment generation. Downstream industries in petrochemicals, electronics, food processing and software are major job providers in the unorganized sector. 85% of all manufacturing employment is now in the village and small industry sector. An enhancement of the supply of technological, financial and marketing inputs to this sector is likely to increase its growth and employment potential.
6. Population Policy – The benefits of growth will be negated if the demographic trends are allowed to persist. The objective of a long-term population policy is to achieve an efficient replacement level of fertility, as measured by the Net Reproductive Rate (NRR). The goal of the National Healthy Policy announced in 1983 is to have NNR 1 by the year 2000 for the country as a whole. For this purpose, a fresh system incentives and disincentives to promote the two-child norm is called for.
7. Wage-Employment Programme – Wage employment assumes increasing importance over time as anti-poverty programmes. Here, the main strategic issue is the administration of the unemployment programme and the design of appropriate labour organization that will effectively mobilize the country's vast and idle manpower resources for rural development. For this purpose we have necessarily to rely more on NREP and RLEGP now amalgamated in the Jawahar Rozgar Yojana. The IRDP may more be regarded as an integral part of planning." These are essentially substially relief employment programmes and should be recognized as such as inadequate substitutes for something better which they should be so planned as to add to productive assets, especially of the poor.
8. Self-Employment – Through formation of skills relevant to rural manpower should be developed for taking up self-employment programmes. Agro based industries should be established for providing supplementary part-time employment to farmers and their families. The potential of forestry in generating employment is also great it can involve any type or worker, semi-skilled or unskilled, without any kind of intensive training.
   It is equally necessary in the urban sector to straighten the technology and economic base of activities of the self-emplyed sector. A recent survey carried out by the GIRT Institute in Kanpur city revealed that almost one-third of the work force likely to be affected by industrial restructuring wanted self-employment in the business or service sector.
9. Income Elasticity of Employment – We have found that income elasticities of employment are as low as one-third. It is the ratio of percentage increase in employment to percentage increase in income. It would need to be close to 0.6 if the goal is to provide employment for all the year 2000.
10. Efficiency of Delivery – The output of a programme can broadly to help the poor-cross the poverty line. So far coverage has been 51 million families at an expenditure of Rs. 11,434, crore and total investment has been Rs. 28,050 crore. About 16 percent of old beneficiary families crossed the poverty line.

Basic Problems of Indian Economy
The major problems confronting today by the Indian economy even after more than five decades of economic planning can be presented below:

1. Problem of Poverty
2. Problem of unemployment
3. Problem of price rise
4. Problem of Repaid Growth of Population.

PROBLEM OF POVERTY
Meaning of Poverty
Poverty is a situation in which a person is unable to get minimum basic necessities of life, i.e., food, clothing and shelter for his or her sustenance. When larger sections of the people in an economy are deprived of these basic necessities, that economy is said to be in mass poverty line.

Types of Poverty
When poverty is taken in absolute terms and not related to the income or consumption expenditure distribution, it is absolute poverty. To measure absolute poverty norms for living are first laid down. These relate to some minimum standards of living. These may be expressed or measured in terms of income/consumption expenditure. Given this, one classifies all those as poor who fall below the standard. The number or percentage to such poor's in the country's population gives the measures of poverty.

Causes of Poverty in India
The causes of Poverty in India are as under:

1. **Low level of economic development –** This level of economic development of our country is low. We are not in a position to make maximum use of natural and human resources. Lack of capital, technology, managerial ability, etc., are responsible for the slow rate of growth of our economy.
2. **Unequal distribution of income and wealth –** It is said that the substantial benefit of economic development went to the pocket of the rich and the poor people were deprived of it. Still more than one-fifth portion of our population is living below the poverty line.
3. **Increase in Population –** Rapidly increasing population is equally responsible for the existence of poverty in India. Every increase causes a reduction in per capita income and so also the standard of living goes down. As regards the quantum of national income, India stands 10th in the world but it stands 10th in the world as regards the per capita income. This is mainly due to alarming increase in population.
4. **Under utilization of natural resources –** "India is a rich country where poor people live." This is a common remark about Indian economy. India is very rich in natural resources (coal, iron-ore, manganese, mica, natural rivers, etc.) nut due to lack of capital, technology, we are not in a position to make best us of these resources.
5. **Illiteracy –** In India, 26% of the public is still illiterate. The percentage of illiteracy in rural areas is higher, Illiterate cultivators hesitate in adopting modern technology and new methods. On the other side, the sahookars and money lenders exploit them. In urban areas, the illiterate labourers are exploited. They are compelled to live in slums in miserable conditions because they get very low wages. Illiterate people cannot struggle for their legitimate rights. Hence they have to live in poor condition.
6. **Backwardness of agriculture –** Nearly half of our population is dependent on agriculture today but the contribution of agriculture sector to national gross product is only 22 percent. It shows the backwardness of our agriculture. A number of factors are responsible for this state of backwardness, for example pressure of increasing population on agriculture, inadequacy of

irrigation facilities, traditional methods of cultivation, lack of cheap credit facilities, electricity, fertilizers, pesticides and high quality of seed etc.

7. **Lack of employment Opportunities –** The problem of unemployment's under employment and seasonal unemployment, disguised unemployment is also responsible for the existence of poverty in urban and rural areas.
8. **Irrational development model –** The model of economic development adopted by the government is not akin to Indian conditions. In fact, we have borrowed foreign models for our economic development. India needs labour intensive projects rather than investment-intensive projects. We have not given due priority to the development of small and cottage industries. That us why the program of eradication of poverty has not been able to deliver the goods.
9. **Social factors –** Certain social factors also add to poverty in India for example, heavy expenses on social customs and occasions of marriages and other ceremonies, caste-system, blind faith, laws of succession, Joint Hindu Family system etc.
10. **Political Factors –** The British rule economically exploited India and nothing was done for improving the standard of living of the people, for increasing their income and for promoting literacy. The industrial structure of India could not be strengthened during the British regime. No attention was paid o the development of agriculture. As a result poverty went in increasing day-by-day.

Poverty Eradication Programmes in India –

Poverty eradication has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic service programmes are being implemented at present. The major anti-poverty and employment generation, programmes launched by the government of India can be presented as below:

1. **Pradhan Mantri Gram Sadak Yojana(PMGSY) –** The PMGSY was launched on December 25, 2000 as a 100 percent centrally sponsored scheme with the primary objectives of providing all weather connectivity to the eligible unconnected habitations in the rural areas. The programme is funded mainly from the accruals of diesel cess in the Central Road fund. In addition, support of the multilateral funding agencies and the domestic financial institutions is being obtained to meet the financial requirements of the programme,
2. **Indira Awaas Yojana (IAY) –** This scheme aims at providing dwelling units, free of cost, to the poor families of the schedules castes, scheduled tribes, freed bonded labourers and also the non-SC/ST persons below the poverty line in rural areas. The scheme is funded on a cost sharing basis of 75:25 between the centre and the states.
3. **Swarnjayanti Gram Swarozgar Yojana (SGSY) –** The Swarnjayanti Gram Swarozgar Yojana (SGSY) was launched in April 1999 after restructuring the integrated rural development programme (IRDP) and allied programmes. It is the only self-employment programme currently being implemented for the rural poor. The objective of the SGSY is to bring the assisted swarozgar, above the poverty line by providing them income generating assets through bank credit and government subsidy. The scheme is being implemented on cost sharing basis of 75:25 between the centre and states.
4. **Sampoorna Grameen Rozgar Yojana (SGRY) –** The Sampoorna Grameen Rozgar Yojana (SGRY) was launched on September 25, 2001. The objective of the programme is to provide additional wage employment in the rural areas as also food security, alongside creation of durable community, social and economic infrastructure in the areas.
5. **Mahatma Gandhi Rural Employment Guarantee Act –** Implement by the Ministry of Rural Development National Rural Employment Guarantee Act (NREGA) is the flagship programme of the government that directly touches lives of the poor and promotes inclusive growth. During 2009-10, it has been rechristened as Mahatma Gandhi National Security rural Employment Guarantee Act (MGNREGA). The act aims at enhancing livelihood security of households in rural areas of the country by providing at least one hundered days of guaranteed wage employment in a

financial year to every household whose adult members volunteer to do unskilled manual work. The act came into force on Feburary 2, 2006 and was implemented in a phased manner. Now it has been implemented in all the districts of the country.

Rural and Urban Poverty –
The problem of poverty can broadly be divided into two parts-rural and urban. The main reasons of their existence are also different and the government efforts made for the eradication are also different as mentioned below in brief –

Rural Poverty – Main reasons for rural poverty –
1. Rapid growth of population
2. Lack of capital
3. Lack of alternate employment opportunities
4. Small farmer development programme (SFDP)
5. Drought area development programme (DADP)
6. Twenty point programme.
7. Food for work programme
8. Minimum needs prgramme
9. Integrated rural development programme (IRDP)
10. National rural development programme (NREP)

Urban Poverty – Main Reasons for Urban Poverty –
1. Migration of rural youth towards cities
2. Lack of vocational education/training
3. Limited job opportunities of employment in the cities
4. Rapid increase in population
5. Lack of housing facilities
6. No proper implementation of public distribution system.

Measures of Reduce Poverty
The following measures can help in alleviation of poverty and in reduction of inequality of income distribution –
1. Structural Transformation – The excessive ratio of population ending on agriculture should be reduced in such a way that their contribution of national income should be equalized with their proportion of employment in agriculture. This can be done by more and more and more industrialization.
2. Checking population Growth – Checking the fast growth of population has a close relationship with economic development. It will lease rise of per capita income leading towards reduction of inequality income and poverty.
3. Reduction of Unemployment – Since number of jobless is continuing well, no serious dent has been made on the problem of unemployment. Hence there is need providing employment. For this purpose special programmes of employment should be undertaken.
4. Control of Inflation – No programme of removal of poverty and inequality of income can succeed in an economy plagued by inflation and spiraling rise of price. Inflation by its very nature accentuates, equalities, eats into the income of the poor classes and thus leads to a deterioration in their economic condition. A poverty eradication programme, therefore, must mop up the surpluses with the elite classes (Landlords, moneylenders, traders and capitalists.
5. Unearthing Black Money – Since bulk of the surplus exist in the form of black money, it is vitally necessary to unearth black money so that resources are not misdirected into the channels of luxurious consumption. By doing so, poverty and inequality of income will be used, and the national resources will be utilized or the common good.

6. Self-Employment – Opportunities of self-employment should be vided by extending credit to low income groups both in the rural and ban areas.
7. Reorientation of Agricultural Relations – There is need of reorientation of the agriculture relations so that the ownership of land shared by a larger section of the population. Tenancy rights should vide security to the cultivating classes; so that small farmer or marginal farmers could strengthen. Researchers have proved that productivity on small farms is as high as that of large farms. It would be, therefore desirable to strengthen the class of small farms with the provisions of credit and better inputs so as to lift the poor peasantry and of object poverty and inequality. From this viewpoint, all the share croppers of temporary tenants are raised to the status of occupancy tenants.
8. Development of Backward Regions – Much quantum of grant for development of the backward areas should be provided so that inequality of opportunities could be reduced. Small and medium industries should be developed in backward areas. More grants should be given for schools of such regions.
9. Public Enterprises – Public enterprises of the Central Government should be setup in those regions which are underdeveloped and where local resources are not adequate. Developments of public sector units so far, have played a significant role in developing the key sectors of the economy. They have enlarged the opportunities of employment and have helped in reduction of inequality and poverty.
10. Rectification of Malady – The institutional malady of the economic structure should be rectified, that is unequal distribution of the ownership of income-yielding assets should also be corrected. We have two inter-connected vicious circles, one of affluence and the other of poverty. These vicious circles must be broken.
11. Optimum Distribution of Income – It is also felt that the pursuit of economic progress is unnecessarily hampered by a premature concern for distributive economic justice. Even Marxists agree that some disparities are inevitable. In such a case also some optimum distribution of income must be fixed to avoid the evils of concentration of economic power and to avoid increasing levels of dissatisfaction among the low-income people.

Conclusion

There is no doubt as a result of the anti-poverty programmes, the poverty line has started moving in the downward direction. What we have missed is the fact that growth and reduction in inequality are both indispensable to a successful attack on mass poverty. We have emphasized on growth and ignored on reduction in inequality. Any attempt to break the vicious circle or poverty, without tampering with the vicious circle of affluence will not affect the cumulative process or halt the widening gap between the rich and the poor. Production and distribution are inter-linked. Hence, there is no justification for treating productive efficiency and distributive justice as two independent variables of growth. Thus, an attack on correcting the maldistribution of assets, both in the rural and urban sectors is a sine qua non. Hence removal of poverty must be complemented with removal of affluence. For this purposes, a strong political will is essential. It will not be enough for reforms to be technically sound and defensible; to be successful the reforms need political support. Otherwise, "India is a country for the future and will always remain so."